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Canada. Railways and Transportation  
Royal Commission on, 1931/32

(ROYAL COMMISSION ON RAILWAYS AND TRANSPORTATION)



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REPORT OF PROCEEDINGS

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VOLUME II

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Regina - Winnipeg - Ottawa

(Pages 468-1005)

Arthur Moxon, Esq., K.C., Secretary

George W. Yates, Esq., Assistant Secretary

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F. Berryman  
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ROYAL COMMISSION ON RAILWAYS AND TRANSPORTATION

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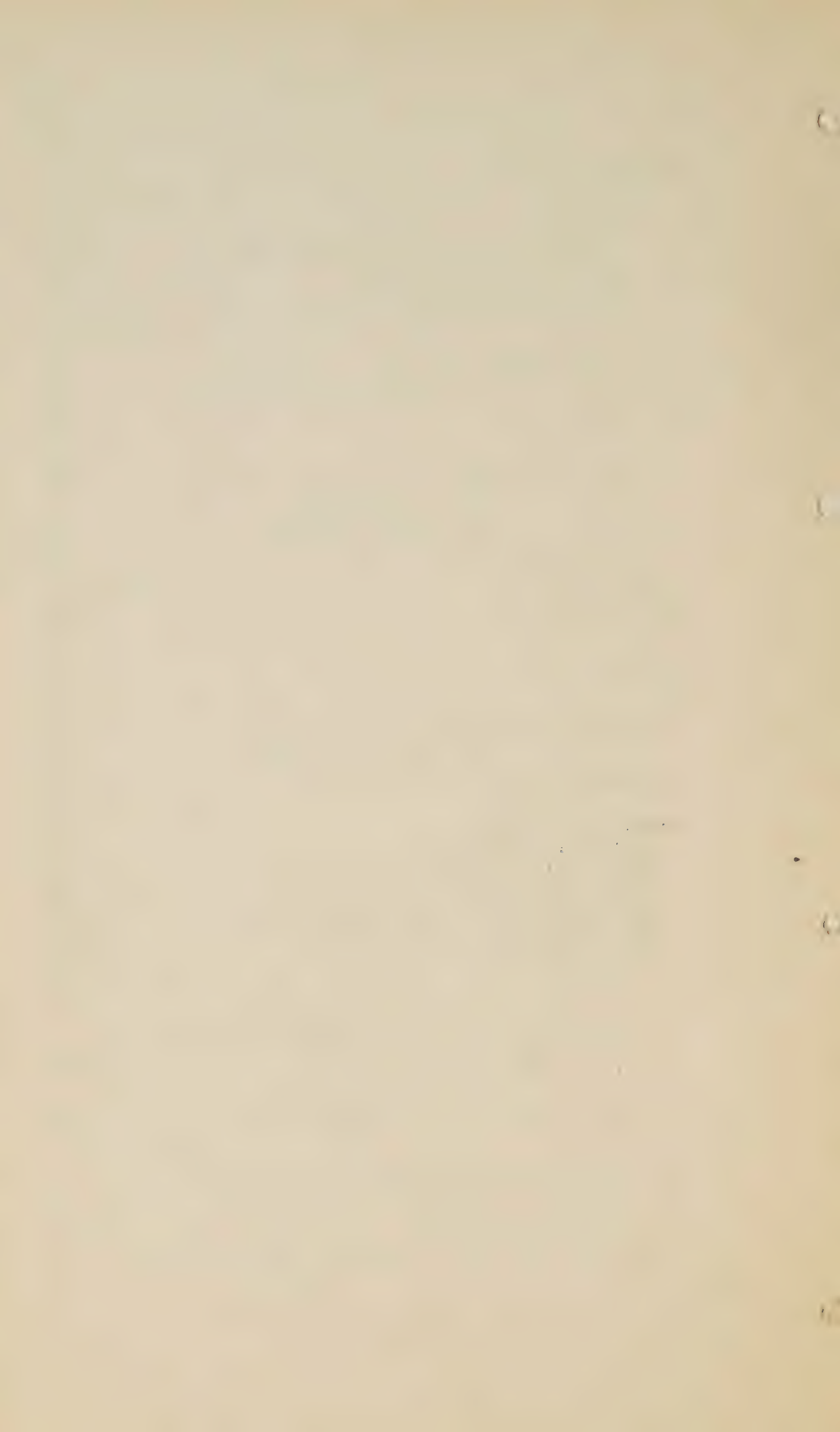
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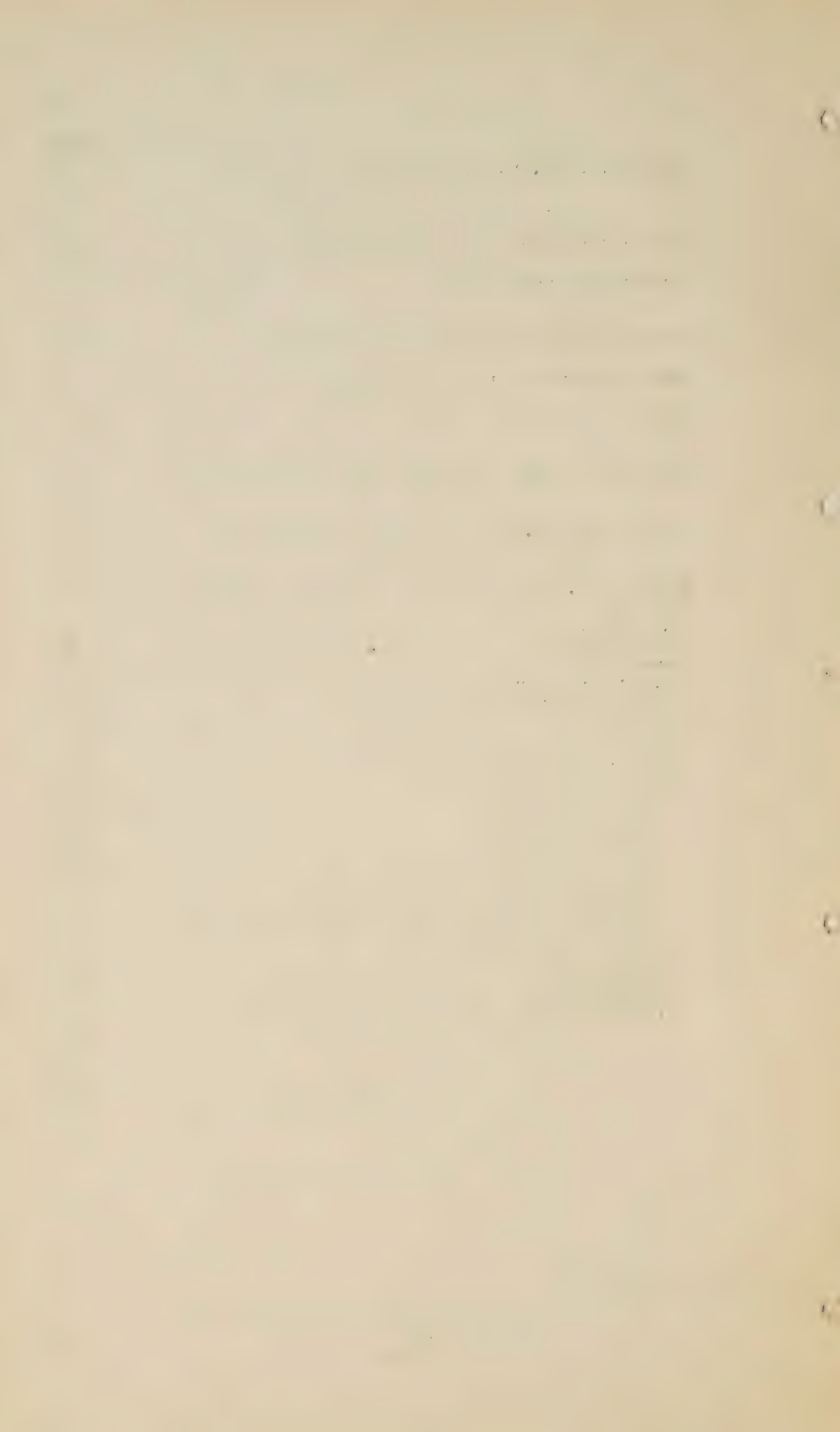
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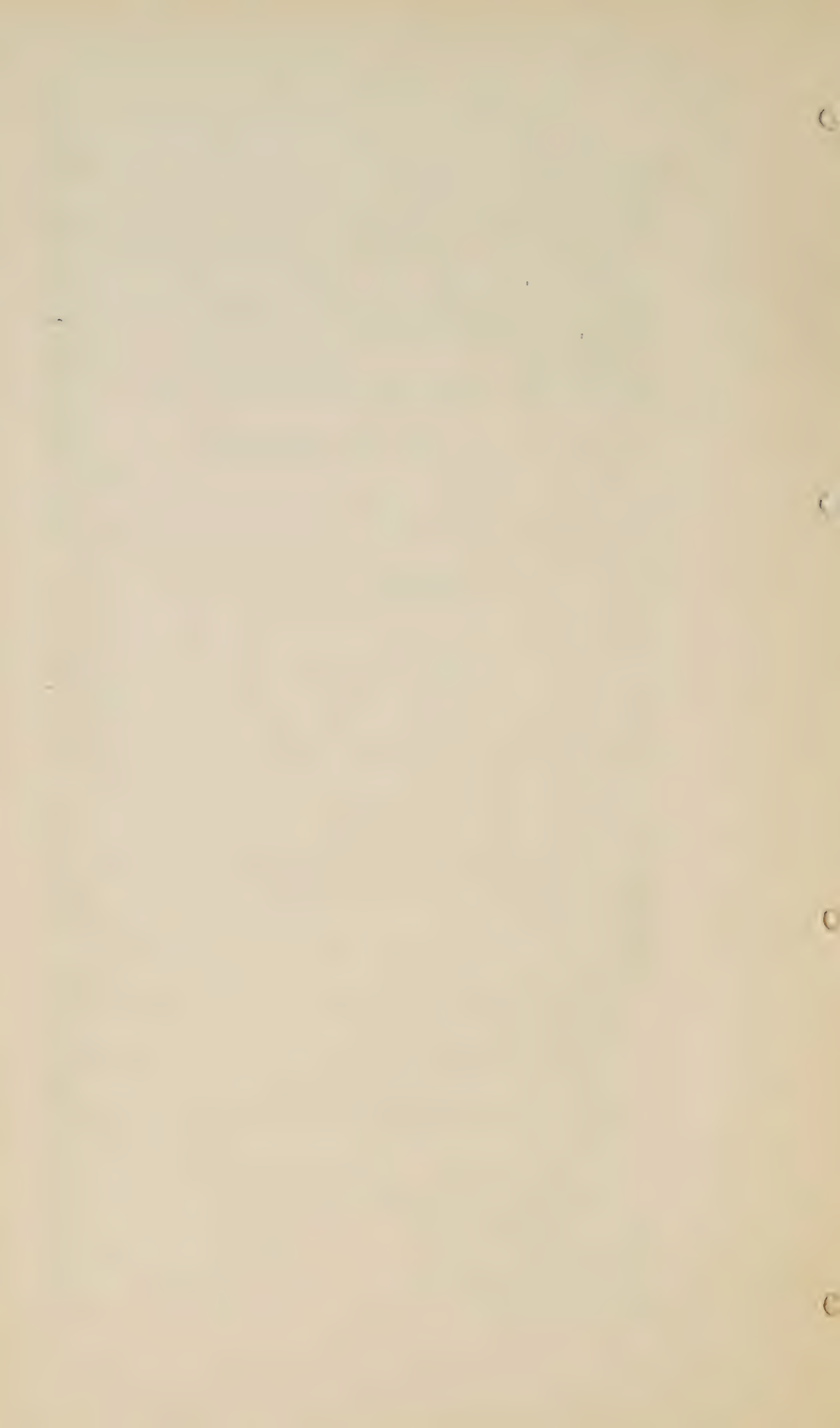


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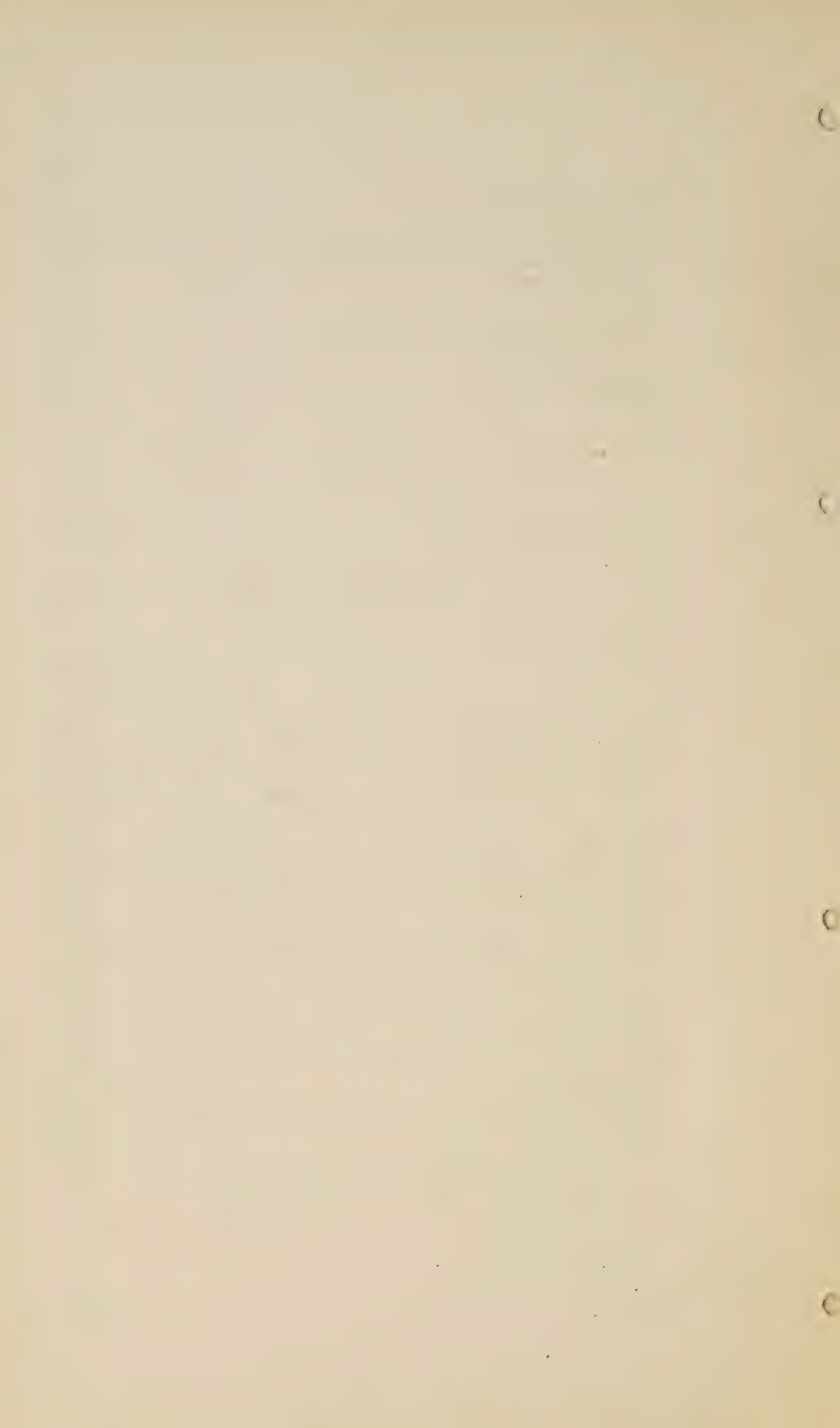




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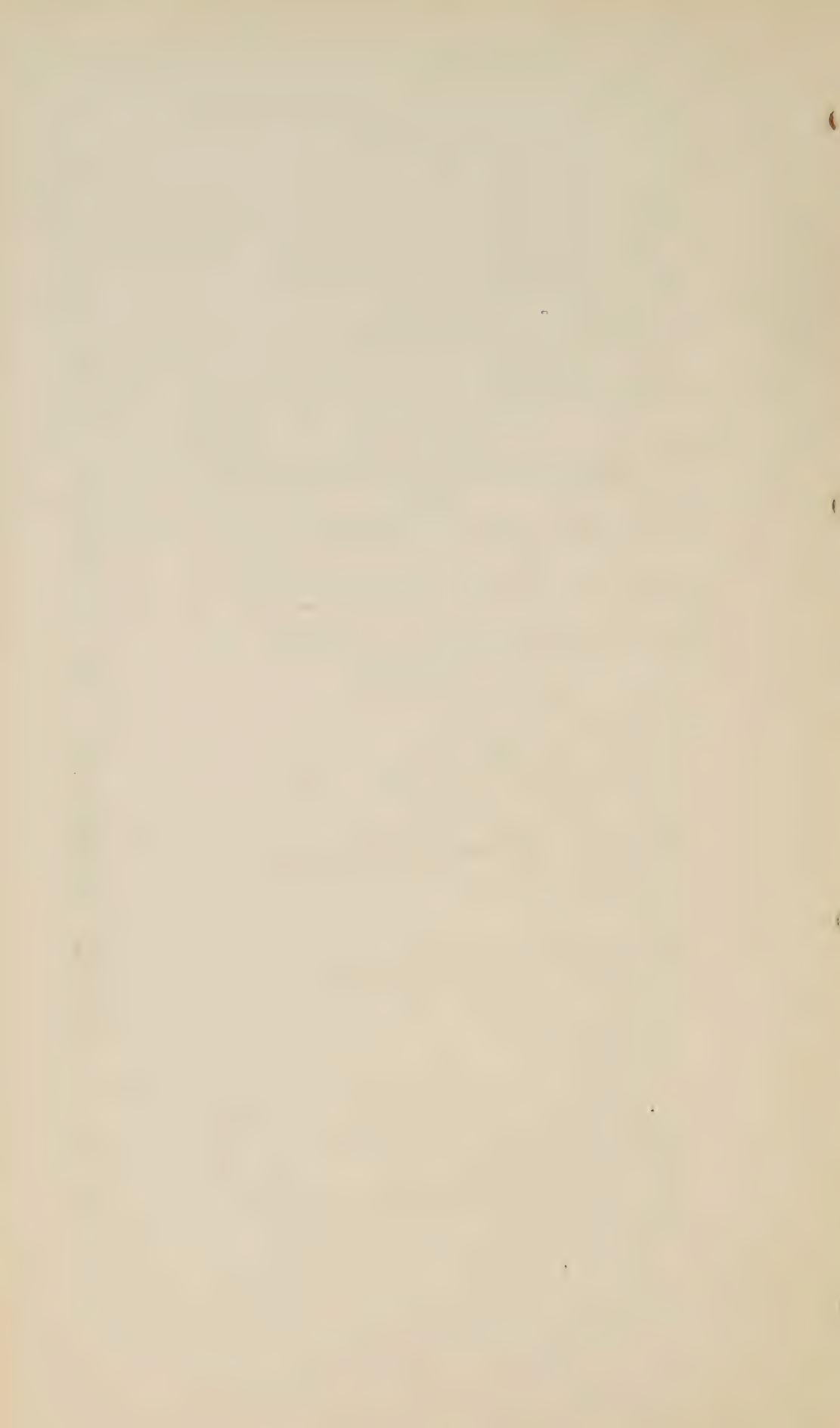


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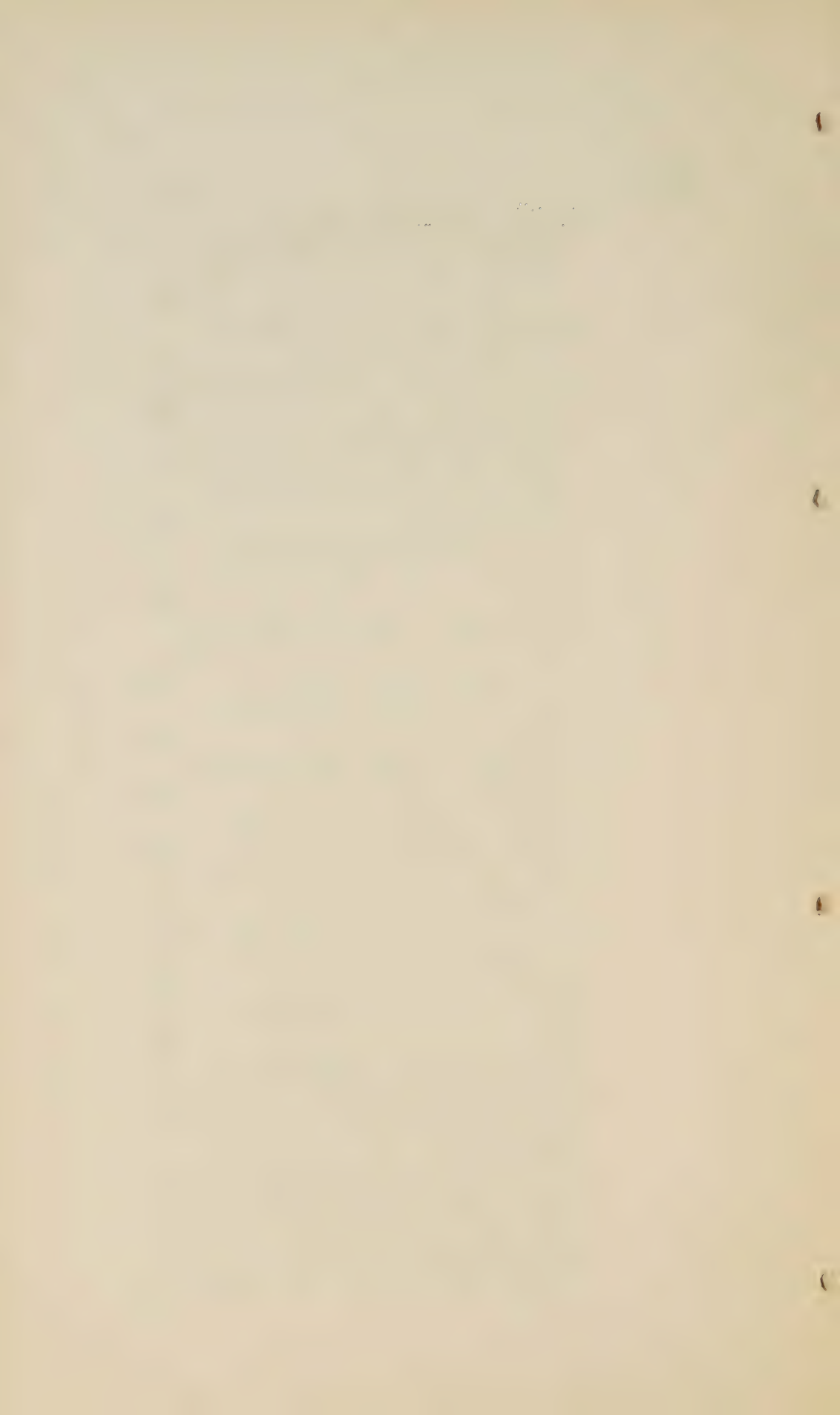
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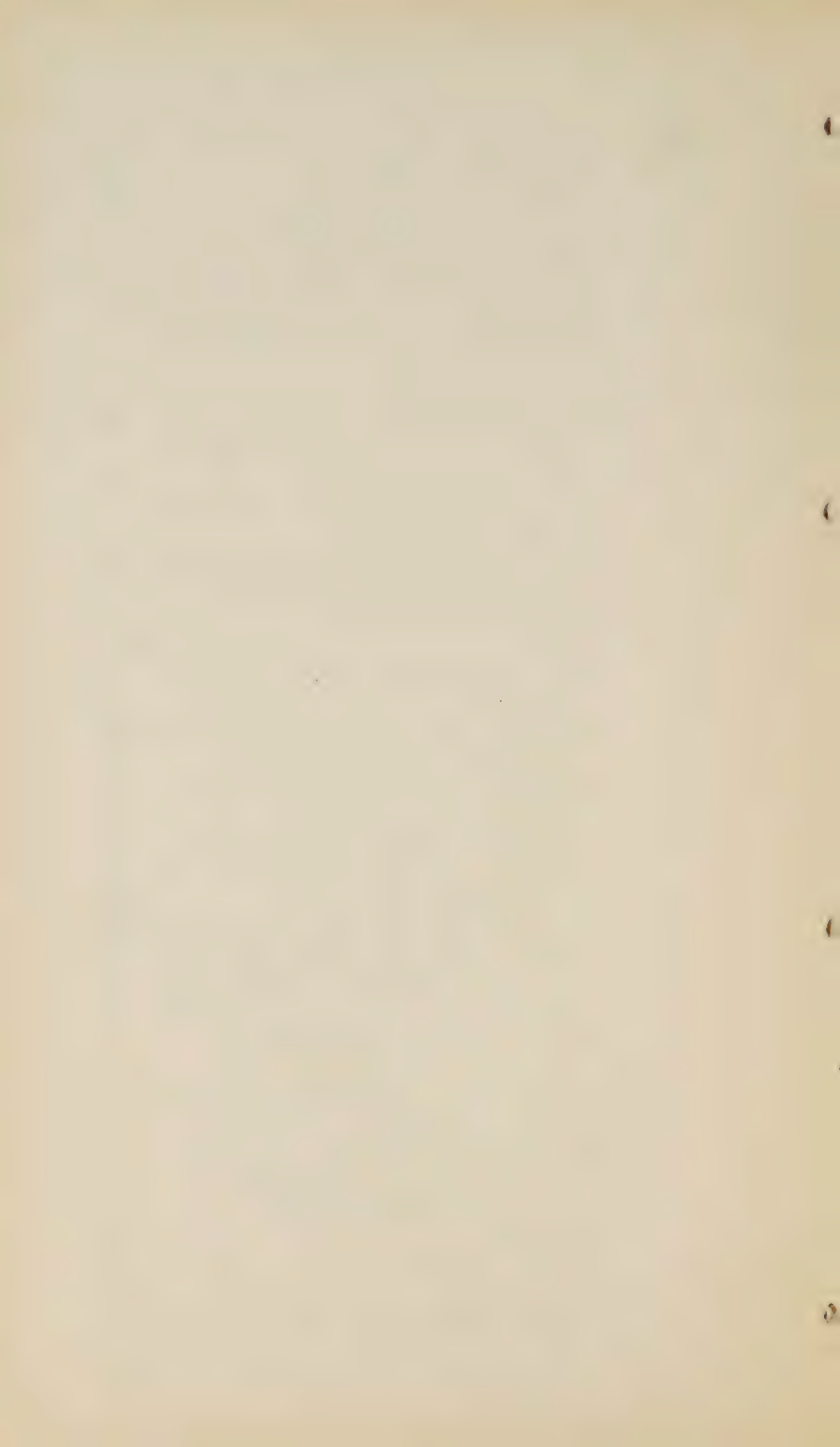


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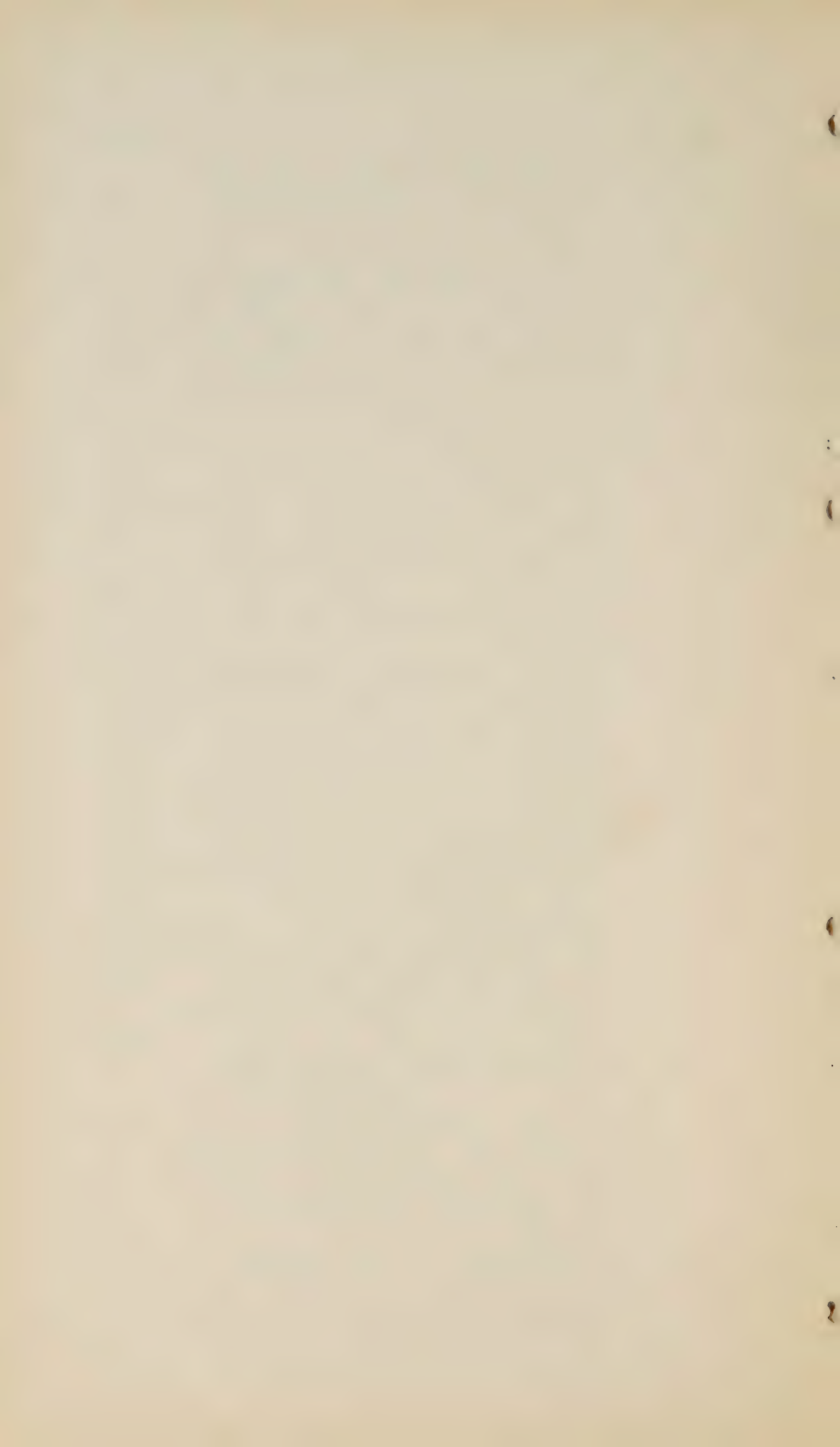
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ROYAL COMMISSION ON RAILWAYS AND TRANSPORTATION

The Royal Commission appointed to inquire into the whole problem of transportation in Canada, particularly in relation to railways, shipping and communication facilities therein, having regard to present conditions and the probable future developments of the country, met at the Parliament Buildings, Regina, on Thursday, December 17, 1931.

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PRESENT:

RIGHT HON. LYMAN POORE DUFF, P.C.,	Chairman
RIGHT HON. LORD ASHFIELD	)
SIR JOSEPH W. FLAVELLE, Bart.,	)
BEAUDRY LEMAN, Esq.	)
LEONOR FRESNEL LOREE, Esq.,	)
WALTER CHARLES MURRAY, Esq.,	)
JOHN CLARENCE WEBSTER, Esq.	)

Commissioners

Arthur Moxon, Esq., K.C.,	Secretary
George W. Yates, Esq.,	Assistant Secretary

Executive Council

Hon. J. T. M. Anderson, Premier,  
Hon. M. A. MacPherson, K.C., Attorney General and  
Provincial Treasurer,  
Hon. W. C. Buckle, Minister of Agriculture,  
Hon. Howard McConnell, K.C., Minister of Municipal  
Affairs,  
Hon. Jas. F. Bryant, K.C., Minister of Public Works,  
Hon. F. D. Munroe, M.D., Minister of Public Health,  
Hon. J. A. Merkley, Provincial Secretary and Minister  
of Railways,  
Hon. W. W. Smith, Minister without Portfolio.

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Parliament Buildings, Regina,

Thursday, December 17, 1931.

MORNING SESSION

The Commission met at 10.30 a. m.

HON. J. T. M. ANDERSON(Premier): Gentlemen, it is not necessary for me to say on behalf of the government that we welcome you very heartily to the capital city of Saskatchewan. We appreciate the very responsible duties which you have been called upon to discharge in the interests of this Dominion, and we assure you that the government of this province will cooperate with you in any way we can in order that you may secure a true picture of the situation you are investigating insofar as it affects the province of Saskatchewan.

As you know, our province is largely agricultural, over 70 percent of our people being engaged in the one industry; and of course in connection with railway matters that involves quite far reaching problems.

Owing to the drought conditions affecting a very large percentage of our people in the southern part of the province during the last three years -- they have had three successive crop failures -- our revenues, including those of the railway companies, have been seriously affected. Possibly one-third of our farm population has been grievously affected because of the conditions I have just mentioned. That does not mean that we have lost hope and faith in the future. We know what we have accomplished in the past, and we are looking forward with faith and hope and confidence and determination as to what will be accomplished in this province in the years that lie ahead.



We have, as I have said, 70 percent of our people engaged in agriculture. The matter of transportation, so far as farm products are concerned, is a very important one. I may say that in discussing this subject among ourselves we have come to certain conclusions as to certain aspects of the problem which you are investigating.

In the first place, there has been discussion in some quarters throughout Canada over a period of years with respect to amalgamation of the two great railway companies. Our government is not in sympathy with the idea of amalgamation. We do think, however, that steps should be taken, perhaps more extensively than has yet been the case, to prevent duplication of services. We are of opinion that the economies should be effected in the best interests of all concerned, and that action along this line could be carried on to a greater extent than has been done up to the present time. I need not mention particular instances of duplication although a score of them might readily be referred to insofar as this province is concerned. For example, we have two lines running parallel close together with the same day and night services maintained on each line.

Then the problem of motor bus and motor truck transportation is becoming more and more important all the time with the advent of good roads in these western provinces, more particularly Saskatchewan. That is a problem which affects the railway companies just as seriously as it affects certain departments of the government. We have come to the conclusion that we must have more stringent regulations, and license fees on a scale sufficient to produce more revenue to help in the maintenance of the roads already built.



We realize the difficulties that motor highway traffic is making for the railway companies. We are quite prepared to discuss with you the question of giving the railway companies rights with respect to motor bus and freight transportation over certain lines; for instance, from here to Swift Current, which is Canadian Pacific territory. It may be that the Canadian Pacific Railway Company will consider the advisability of getting complete control of motor transportation, both passenger and freight, between here and that city. At the present time we have a system -- it will be explained to you later -- whereby certain companies or individuals are given sole rights over certain roads, for which they pay a license to the government.

We believe of course that all parts of our province should continue to be served with railway facilities. In the northern part of Saskatchewan the railway companies have been pushing their lines in during the last few years. I think I can safely say that one of the results of that branch line development has been that during the past year we have had an influx of settlers to that section, probably the largest that has taken place in the history of the province. Upwards of 4,000 families have moved into that northern territory during the past year; probably 20,000 souls are included in the movement.

In this connection it is interesting to note that we have adopted the purchase homestead policy; we have abandoned the free homestead policy. During the past year we have sold over \$600,000 worth of land. Most of the sales have been at a nominal charge of \$1 an acre, with ten percent of the purchase price paid down and the balance spread over a period of years. Where there has been





competition for some parcel of land we have sold it for as high as \$10 an acre.

We have many thousands of acres of land in the north suitable for mixed farming, much of it in the unsurveyed area. We have crews at work at the present time completing their surveys. By way of an aside I may mention that we have confined that type of settlement to residents of this province for the past five years, and they must be British subjects.

By this settlement plan we are getting rid of some of our surplus unemployed population in the urban centres. For instance, at Saskatoon sixty families were selected out of 250 applicants. The heads of those families were men who had had previous experience in farming, and I think I am safe in saying that 75 percent of them are making good. They got on the land last spring in time to build their log houses and put in a garden. Under our scheme we advance a loan of \$500 to the proper type of settler to give him a start. He must have equipment to the value of \$250, that is, a team of horses, a waggon and a plow before he can get an advance. We advance him \$25 at certain intervals as he makes improvements so he may maintain his family while getting his land cleared. We have between three and four hundred settlers under that scheme. We made provision last session for an appropriation of \$250,000 for this purpose. At the time we thought the Federal government might supplement that by a similar grant, but they have not been able to do so. These people are making good, and we are convinced that this is a scheme which should receive the encouragement of all, including the railway companies. As a matter of fact I think we have the sympathetic cooperation



of the two great transcontinental companies. We feel that men are much better in that new country making a start whereby they can establish a home for themselves and their families rather than remaining in the cities and getting casual work or standing in bread-lines.

With respect to the railway companies, you might well consider having the province divided into areas, Canadian Pacific and Canadian National. I think that was the intention at one time, but it has not been carried out very thoroughly. There is still time to consider that aspect so there will not be in the future such duplication as we have had as a result of past railway policies.

We are also of opinion that the capitalization of the Canadian National Railways should receive the attention of the thinking people of Canada and should be considered by your Commission.

We are also intensely interested in the early operation of the Hudson Bay Railway. The west is looking for great things as a result of the opening up of this line, and we believe it will be instrumental in bringing back all the sooner better times in the west if the opening of Fort Churchill is not delayed. There is a feeling among some people here that there is no intention to hurry this along, that there may be opposition to the early opening of the Port. We are determined to use all our influence in this province to bring that about, and we can count on the co-operation of the people in the eastern part of the province of Alberta. We believe that the early opening of Fort Churchill will be in the interests not only of the west but of the whole Dominion; we are not asking for anything that will not be beneficial to all the people of Canada. We are



convinced, contrary to the opinions of some people, that the Hudson Bay Railway will become of prime importance not only to the western provinces and to Canada as a whole but also to the Empire.

That, gentlemen, briefly sets before you the main points the government desired to bring to your attention. Some other members may have something to say by way of enlarging on some of the subjects to which I have referred.

Would you like to ask any questions?

THE CHAIRMAN: Is the pursuit of your settlement policy in the north likely to involve any further railway expansion?

HON. MR. ANDERSON: On this wall is a map of our province. The settlement to which I referred runs along the hinterland. This white portion is the unsurveyed area. Here is Prince Albert National Park. Here is the city of Prince Albert. The railroad runs up to Big River. Then we have the new C.P.R. line to Meadow Lake; steel is now being laid. A lot of our settlement is contiguous to that railway. Here is St. Walburg -- the right-of-way is cut through on what we call the Bonnyville section right to this section. Several hundred settlers went in there last year and this year.

HON. MR. MERKLEY: The grading is done south to Cold Lake.

HON. MR. ANDERSON: So that will serve all the settlement in this area extending for 28 or 30 miles. They have railway facilities for this area by the projected line to Meadow Lake. Going to the eastern side of the province we have a railroad line running from Nipawan.

HON. MR. MERKLEY: It runs across the river to



Henribourg.

THE CHAIRMAN: What railway is that?

HON. MR. MERKLEY: The Canadian Pacific Railway.

The line from St. Walburg is the Canadian National.

Grading is done to south of Cold Lake.

HON. MR. ANDERSON: All this new settlement is served or will be served by railway lines.

THE CHAIRMAN: All the lines you have mentioned are adequate to serve this agricultural settlement expansion for a period of the next five years, say?

HON. MR. MERKLEY: I would say so.

HON. MR. ANDERSON: There is a great deal of land suitable for mixed farming in this white area that will have to be surveyed.

THE CHAIRMAN: Of course, you do not permit settlement on the unsurveyed land?

HON. MR. ANDERSON: No.

THE CHAIRMAN: Have you any zoning policy in regard to the expansion of settlement?

HON. MR. ANDERSON: How do you mean?

THE CHAIRMAN: Settlement is free wherever the land is surveyed, I suppose?

HON. MR. ANDERSON: Of course, we are doing something that was never done under the free homestead policy; we are accumulating information as to the nature of the soil, the forest on the land, and so on. That is being gathered by our forest rangers and land men, and is available at our offices. It is not very accurate in detail, but it is better than nothing to guide people who are looking for a place on which to settle. Most of them go up in parties and tour the country and select land themselves. When they





come to take up a piece of land we will go so far as to say to them: We know that is not suitable, that is jack pine, that is a sandy ridge, or as the case may be.

THE CHAIRMAN: Do you exercise any control over intending settlers with respect to the distances from railway lines within which they must locate?

HON. MR. ANDERSON: No, we do not do that.

THE CHAIRMAN: But automatically settlement is limited of course to the surveyed country?

HON. MR. ANDERSON: Yes. We have probably several hundred people up there who have gone ahead of the survey and are squatting.

THE CHAIRMAN: You cannot prevent that of course.

SIR JOSEPH FLAVELLE: Mr. Prime Minister, to no inconsiderable extent the story of the development of the west has been the story of settlers going in in advance of railway construction, and then followed great pressure from local governments and from members of Parliament urging that the railways extend their facilities so as to afford to those settlers the needed means for sending out their products. It is alleged that a good deal of railway construction into these sparsely settled communities would have been prevented if the powers that be had limited as a matter of public policy the extent to which settlers should be allowed to go into territory not enjoying railway facilities. The natural resources of these western provinces having been vested in Ottawa until two or three years ago, the Federal government of course had to take responsibility for their administration. Those resources are now vested in the provinces.

HON. MR. ANDERSON: Yes.



SIR JOSEPH FLAVELLE: Inasmuch as this transportation problem is of sufficient gravity to be referred to a Royal Commission, it is somewhat important that as far as may be practicable the extension of new lines should be held in abeyance until the old lines are able to carry the charges incident to their cost of operation. I think your neighbours further west undertake to define the limits within which settlers may go in advance of railway transportation.

HON. MR. ANDERSON: Our neighbours further west have the advantage of that great Peace River area, which is distinct and lends itself more to settlement as a whole than does the northern part of this province.

SIR JOSEPH FLAVELLE: Yes. I think, however, even in the Peace River country, where there is already a considerable system of railways, as you know, the provincial authorities restrict settlement to new districts until the existing districts are occupied to such an extent as to make it possible for the railways to have a return to meet operating expenses.

HON. MR. MCPHERSON: In a general way, Mr. Chairman, that is what is being done here. You will notice that the influx of settlers from south to north was just to that area served by the railways. At the natural resources office in the city of Regina they would be directed, not to the hinterland or the white area, but to the area in which railways are now running.

HON. MR. ANDERSON: It is almost a case of the railway going in ahead of settlement; at Loon Lake, where we have settled several families they have their grading done. When these new settlers get roads cut through they will be eleven miles from the railway; whereas a year ago this line was not settled at all.



THE CHAIRMAN: Are those districts served with highways at the present time?

HON. MR. ANDERSON: I would not say they are served adequately. We have several hundred men in the north now cutting out roads.

THE CHAIRMAN: That will necessarily follow settlement.

HON. MR. ANDERSON: Yes.

HON. JAS. F. BRYANT, K.C., (Minister of Public Works): I think, Mr. Chairman, there is another factor to be taken into consideration in the north country and that is its mineral development. There have been discoveries of very valuable minerals in the north, and I think the railway companies recognize the value of those minerals. One of the companies at least has undertaken to put a railway up there.

THE CHAIRMAN: Have these mineral discoveries been made in the unsurveyed territory?

HON. MR. BRYANT: Yes. The minerals are supposed to be some of the most promising in America, according to the assays. But there is another thing to be taken into account: We have perhaps the fourth greatest fishing ground in the world. You cannot see it on the map, but one half of the northern area of this province is all lakes. The fish there are very superior. The whitefish has commanded the highest prices on the New York and Chicago markets because being matured in the cold waters of the north it is firm and flaky and of very fine quality. We cannot very readily bring this fish down now. They bring it in, particularly during the winter season, by sleigh loads for several hundred miles, and some of the firms are bringing their fish in by aeroplane. We could develop a very large fishing





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industry up there. In addition to this, I am advised by the chief fisheries inspector that at Grand Rapids on the Beaver River, where all the waters of the north country can be drained to this point, all the traffic of the northern basin could be tapped if we had a spur line to that district.

THE CHAIRMAN: That would be a spur line from where?

HON. MR. BRYANT: I expect Meadow Lake would be the nearest point. That is on the new line running from Shellbrook in a westerly direction north of the river.

THE CHAIRMAN: That is a Canadian Pacific line?

HON. MR. BRYANT: Yes.

THE CHAIRMAN: What would be the distance of this spur line?

HON. MR. BRYANT: I would say probably two or three hundred miles. It would advance settlement and assist all the north trade.

THE CHAIRMAN: Is all this country suitable for agricultural settlement?

HON. M. BRYANT: Not for wheat growing, but for cattle raising. The settlers up there also engage largely in the fur trade, I know lots of them go to the north and probably double their income by the fur trade. Some of the hired men of the farmers to the south here go up there in the winter and fish.

HON. M. A. MacPHERSON, K.C., (Attorney General and Provincial Secretary): In that area, Mr. Chairman, you would find a lot of the farming would be by way of subsistence as against the farming done down here.

THE CHAIRMAN : Not commercial farming?

HON. MR. MacPHERSON: No. We encourage that type of



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farming at present simply because of unemployment conditions in the urban centres.

THE CHAIRMAN: If I understood the Prime Minister aright, I thought he said that the movement you are encouraging to the north and the special arrangements you are making with respect to it, are limited to inhabitants of the province who have been here for five years or more.

HON. MR. MacPHERSON: Yes, Canadian citizens.

THE CHAIRMAN: People who have been naturalized?

HON. MR. MacPHERSON: Yes. We have parts of the province where the population is only 50 percent British by origin, but the great majority of the other 50 percent are most anxious to be naturalized and become Canadian citizens. Of course, a great many of them have been here for years, and their sons who are growing up are anxious to carry on farming. They have made good in this country and they know western conditions. We feel they should be encouraged to stay here rather than that there should be any influx, say, from central Europe at the present time.

SIR JOSEPH FLAVELLE: What portion of the 20,000 who have gone into the northern country during the past year moved from the southern part of the province where there was a drought?

HON. MR. MacPHERSON: The great proportion of them.

SIR JOSEPH FLAVELLE: They are not new settlers in the sense of immigrants; they are moving from one part of the province to the other.

HON. MR. MacPHERSON: Yes; or they are the grown sons of men living in one part of the province who are going in there to make way for themselves.

LORD ASHFIELD: With improvement in urban conditions



they might be tempted to come back again.

HON. MR. MacPHERSON: Some might, but judging by reports they are quite happy to settle there. Of course, that is something you cannot conjecture.

LORD ASHFIELD: It does arise out of the present unfortunate unemployment conditions.

HON. MR. MacPHERSON: Yes.

THE CHAIRMAN: Has there been any large movement from that part of the province south of the Canadian Pacific line where the crop failures occurred?

HON. MR. MacPHERSON: No, having regard to the general population the movement has not been so very great. But it has been from certain districts; for instance, from the district of Pontiac a number of people have left.

HON. MR. ANDERSON: I think it is safe to say that those who have gone from the south are mostly tenant farmers, or owner farmers who may have grown up sons whom they want to give a start in the northern part of the province. The question of abandoned lands is not extensive at all; those farmers will come back here next spring and put in their crops. But the tenant farmers will likely remain in the north.

HON. MR. MacPHERSON: You were asking about bus lines, Mr. Chairman. Some figures may be interesting to you to indicate the increase in this traffic. The first statute relating to bus lines was passed in 1928, the Public Vehicles Act. Very few buses were operating for some years. Last year, 1930, under our regulations we divided the buses into passenger, and freight and express buses. Last year eleven franchises were granted for passenger buses and twenty-three for freight. Notwithstanding economic conditions,



this year that number had increased from eleven to twenty-three passenger bus lines, and from twenty-three to seventy-five freight lines. That is, the passenger lines were doubled and the freight were actually trebled in one year. There were forty-two buses on the road under the twenty-three franchises and one hundred and seventy freight under the seventy-five franchise.

We have been imposing a tax practically the same as that imposed by the province of Alberta. It varies on trucks according to the weight and capacity, and so far as passenger buses are concerned it varies there according to capacity as well.

We feel that the situation is not met by the legislation and the regulations now current, and we have under consideration for this session of the legislature legislation which will make provision not only for keeping the franchises under control, but for covering all commercial trucks that might serve the rural area. As to taxis and commercial trucks operating in the cities, we do not propose to interfere with them unless they carry on a trucking business.

We also feel that we will regulate the freight rates having regard to those that are charged on the railways, and that the railways shall receive equitable treatment and be given a fair show. As to the passenger traffic, we are proposing that in addition to the regular license fee, the passenger buses shall also pay a certain percentage on their traffic; that is, tickets would be issued by the department and the buses would have to pay on the passenger traffic actually handled.

In this province we find that local express freight





has been taken away from the railways to a very great extent. For instance, the trucking of cream to the creameries and the handling of local freight to our merchants, as well as the moving of household furniture and that sort of thing -- all that has been lost to the railways. In order to try to meet that situation we purpose at the next session of the legislature to introduce legislation that will treat the common carrier in this province on an equitable basis.

THE CHAIRMAN: I do not quite understand the distinction you draw between concerns having a franchise and those who have not. How does that work out?

HON. MR. MacPHERSON: The difference really is this. Take from here to Moose Jaw, under the Public Vehicles Act anyone operating a passenger service between these points has to obtain a license from the Department of Highways. The department can grant an exclusive right if they think it will serve the purpose having regard to the passenger traffic.

THE CHAIRMAN: Those exclusive rights are comprehended in the terms of the franchise?

HON. MR. MacPHERSON: Yes; the other is the commercial truck.

THE CHAIRMAN: At present it is only the vehicles which are operating under one of these franchises that have been regulated?

HON. MR. MacPHERSON: That is the fact.

THE CHAIRMAN: You propose now to extend that regulation to all motor vehicles?

HON. MR. MacPHERSON: We propose to extend it to



commercial trucks of all kinds and to have unlimited control over them.

THE CHAIRMAN: What matters does that regulation touch?

HON. MR. MacPHERSON: You mean the present regulation in regard to franchise?

THE CHAIRMAN: And the proposed regulation.

HON. MR. MacPHERSON: The present regulation as a matter of fact does not serve a very great purpose. We can simply say, we will allow one, two or three vehicles to operate as the traffic warrants on a certain highway or between two certain points. The charge now is made not on the basis of the traffic handled or of the freight carried, but simply on the basis of the vehicles' capacity. We propose to go further by way of regulation and say: We are not only going to be concerned with the size and the capacity of your truck, but as well we are going to be concerned with the amount of traffic you actually handle, whether passenger or freight; and we are also going to be concerned particularly with the rates that you charge on freight and passengers between these points. There is regulation now as to passenger and freight rates, but it has to be tightened up.

THE CHAIRMAN: You propose to regulate rates in addition to imposing fees?

HON. MR. MacPHERSON: Yes.

THE CHAIRMAN: You impose limits on the size, weight and so on?

HON. MR. MacPHERSON: Yes, we do. The passenger bus, for instance, pays the regular livery license under the Motor Vehicles Act, and in addition a charge varying,

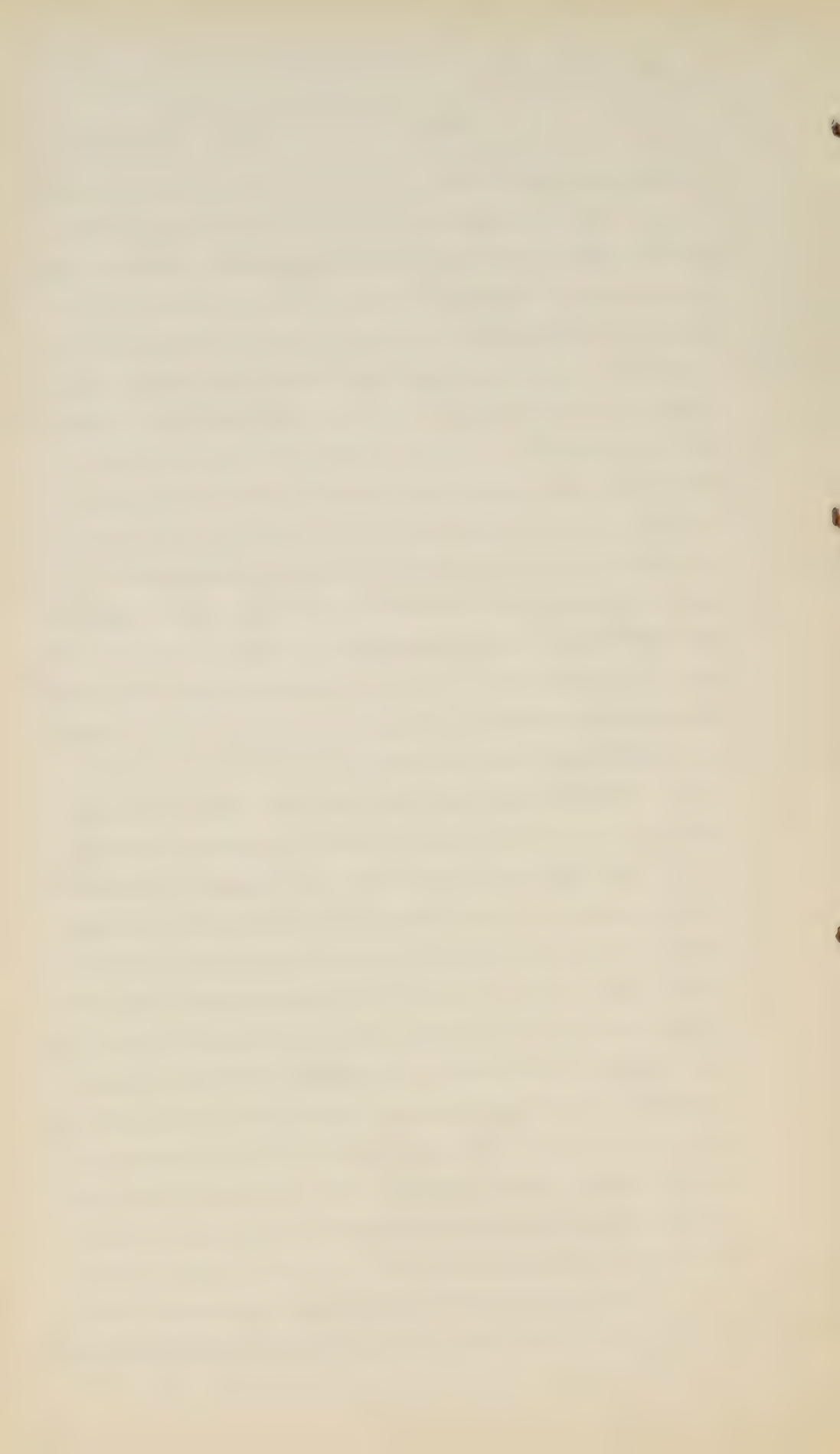


I think, from \$15 to \$45, according to the capacity of the vehicle. We feel that the situation is not being met at present because not only have the franchises increased from twenty-three to seventy-five in one year, showing the increase in this particular business, but there is also this fact to be considered, that some people have got into the business who should not be there at all, but they probably have been encouraged to go into it because of the easy regulation now prevailing. We propose to set up safeguards by way of compulsory insurance and that sort of thing. These compulsory requirements will not only be safeguards to the public, but they will mean that only those will go into the business who are able financially to carry on. Fly-by-night concerns could get into the business under the present conditions, and that is not in the interest of the community or of the transportation business.

COMMISSIONER LOREE: Of the total number of trucks handling merchandise what proportion are common carriers?

HON. MR. MacPHERSON: The total number of commercial trucks operating in the province is about 6,300. Of that number 107 are covered by this franchise which I have mentioned. The great majority of the others do not come under our present legislation other than that they are covered by the ordinary truck license. The figure of 6,300 includes commercial trucks that wholesale grocers use around the city, and also trucks that they use to deliver their goods to outside points, thus interfering with railway traffic. Any of these trucks which use the highway we propose to cover by the new legislation; they are not being covered now.

COMMISSIONER LOREE: Those being such a small percentage of the total, do you think the legislation will have





any real effect?

HON. MR. MacPHERSON: We think it will in this way. I could not even venture to guess as to the number of the 6,300 commercial trucks that are now not licensed by franchise, but are actually carrying goods from wholesale grocers, implement companies, and wholesale hardware concerns out into the country to various points. Under the legislation that we propose all of those trucks will have to come under it if they are common carriers in any sense of the word.

THE CHAIRMAN: Do you propose to distinguish between common carriers and those who are mere contract carriers? There is all the difference between the two.

HON. MR. MacPHERSON: Oh yes, there will be a distinction. For instance, the 107 trucks I mentioned carry freight for anybody and everybody. Then there is the commercial truck that the wholesale grocer in Regina, for instance, uses to take goods out to his merchants within a radius of thirty or forty miles. So far as the railway companies are concerned, there is a situation prejudicial to them. True, that truck would carry only for the one individual firm, but we propose to have it covered by the legislation we have in contemplation.

LORD ASHFIELD: Do your proposed new regulations, Mr. Attorney General, mean that a franchise will be given to the users of roads in respect of commercial business as well as passenger business?

HON. MR. MacPHERSON: Oh yes, our present legislation provides for that.

LORD ASHFIELD: An exclusive franchise?

HON. MR. MacPHERSON: Yes, an exclusive franchise may



be given.

LORD ASHFIELD: The effect of that being to convert the road into a railroad to all intents and purposes so far as the use of it is concerned for the carriage of goods.

HON. MR. MacPHERSON: That construction could be placed on it. As a matter of fact when the first Act was passed it was realized that some machinery would have to be set up to regulate this new development in transportation, and it was felt to be absolutely essential that between two given points there should not be an indiscriminate permission to run passenger or freight service. Consequently a man would get an exclusive franchise for that part of the traffic because it did not warrant more than the one franchise. That feature of the legislation will be retained in the new Act.

The point you raise follows from what the Prime Minister has said, that we think if the railway companies, for instance, feel that along the main highways they should be entitled to operate freight and passenger lines, they should have the first opportunity of taking over that business on an exclusive franchise. To be perfectly candid, we have felt that the railways, to use a colloquial expression, have been asleep at the switch so far as highway transport is concerned; but seeing that they have allowed that traffic to be developed by men who have made substantial investments in the franchises now existing, we think those men should be given an opportunity to be recouped their actual investments.

COMMISSIONER LOREE: Are any of these passenger bus companies paying dividends?



HON. MR. MacPHERSON: We have no large concerns in this province, and the business is mostly in the hands of private individuals, who in many instances carry on without even the incorporation of a joint stock company. But it is the same story: some of them have made money, some started from nothing and have accumulated quite a bit by way of rolling stock, and probably that is all they have; others have lost everything they put into the business.

COMMISSIONER LOREE: Do you suppose that those who have accumulated rolling stock have made the proper charges for depreciation reserves and so on that a solvent corporation would make?

HON. MR. MacPHERSON: I doubt if any of them have.

COMMISSIONER LOREE: Then to some extent their financial story would be fictitious.

HON. MR. MacPHERSON: Yes, I think it might be construed as a very precarious industry to be engaged in. I do not think that any proper form of cost accounting has been adopted.

COMMISSIONER LOREE: Then the railroads instead of being asleep at the switch probably have been very wide awake.

HON. MR. MacPHERSON: Only to this extent. I think money has been made along the main line of the C.P.R. by those who have operated motor services there.

HON. MR. ANDERSON: The fact is the railroads have been losing a large amount of money by reason of this highway competition. You can travel almost anywhere in the province by bus lines. Whether the bus companies are making money or not we do not know.

COMMISSIONER LOREE: What will be the position five



of ten years hence, will the bus companies have passed out?

HON. MR. MacPHERSON: Not along what we call the number one line area in the province. That is a very profitable territory. I think the men who are operating there have been making money.

COMMISSIONER LOREE: I was thinking of the experience the railroads had with interurban electric lines starting in 1890. Many of the railroads went into that field, secured lines and extended them; but today those lines are being torn up and abandoned, and the investment has proved a dead loss.

HON. HOWARD McCONNELL (Minister of Municipal Affairs): Has that been caused by the advent of the automobile?

COMMISSIONER LOREE: To some extent it has; but interurban electric lines were in the picture long before the automobile came in.

LORD ASHFIELD: Mr. Attorney General, have you these proposed regulations in draft form?

HON. MR. MacPHERSON: Yes, we can let you have them.

LORD ASHFIELD: This is the first instance I have heard of an attempt being made to control this situation by an exclusive franchise. In the Old Country this question of the use of the roads is a very serious one. Of course, motor transport there has developed to an enormous extent. In recent years the railways have been authorized by Parliament to interest themselves in this form of transportation; but Parliament was fully alive to the possibilities of the railroad companies securing control of that form of transportation and stifling it; so the proper safeguards have been provided for in the legislation. I was wondering how you would deal with that if, for instance, the railways acquired





a controlling interest or, if you will, complete control of those who are now carrying on this kind of road traffic, and through that control they brought the services to an end; would that meet the views of your government?

HON. MR. MacPHERSON: No. If we felt that service was necessary in the interests of a particular district, and the railways did not want to exercise their right to the franchise, we would see that somebody else was given the opportunity to do so.

LORD ASHFIELD: You would always keep the door open?

HON. MR. MacPHERSON: Yes; but we feel that under the circumstances the railways should have the first bite of the cherry, if they want to take it.

LORD ASHFIELD: Do you propose to control the volume of traffic or the number of vehicles that might be used?

HON. MR. MacPHERSON: It would be controlled indirectly. We would not try to control by limiting the amount of freight or number of passengers to be carried in any given time.

LORD ASHFIELD: Of course, the railways are controlled.

HON. MR. ANDERSON: We have a regulation -- I am not familiar with the details -- forbidding trucks of a certain type or weight to travel on the highways.

LORD ASHFIELD: That is by regulation?

HON. MR. ANDERSON: Yes.

THE CHAIRMAN: Mr. MacPherson, it has been put forward with a great deal of emphasis that regulation of freight rates is not practicable. I wonder if you have made any investigation at all as to that. It came to me rather as a surprise, but it has been put forward quite seriously.



HON. MR. MacPHERSON: As a matter of fact we think freight rates can be controlled.

THE CHAIRMAN: Of course, where you have an exclusive license it is comparatively easy. On main lines perhaps it would not be difficult, but it would be where you have a network of highways.

HON. MR. MacPHERSON: It would be abused undoubtedly, particularly by the smaller men. At the same time they are licensed, and you always have the power of revocation.

THE CHAIRMAN: Yes.

SIR JOSEPH FLAVELLE: Has it occurred to you, Mr. Attorney General, that in view of the fact that the province builds the roads, while the railways have to assume the cost of the right-of-way, your more effective line of control of abuses of the situation by truck and bus operators would be in the rate which you charge for commercial trucks and for buses?

HON. MR. MacPHERSON: We are dealing with that as well.

SIR JOSEPH FLAVELLE: What do you now charge for the use of the highways?

HON. MR. MacPHERSON: I cannot give you the exact figure because it varies with the weight of the truck. I think as a matter of fact our figures coincide with those of the province of Ontario. We charge on the basis of weight.

SIR JOSEPH FLAVELLE: Of course, if you consider it from the standpoint of the expenditure upon the roads and the competitive relationship of the motor vehicles to the railways, the charge in Ontario is utterly inadequate; it is a very moderate fee. For instance in some of the



material which has been presented to us it is stated that in certain States of the union the fees run all the way up to \$2,200 a year. Yours, I suppose, will vary from \$25 to \$50?

HON. MR. MacPHERSON: Ours vary from \$10 to \$150.

SIR JOSEPH FLAVELLE: According to the size of the truck or bus?

HON. MR. MacPHERSON: The tonnage. So far as the passenger bus is concerned, there is a livery license fee, and in addition to that a fee running as high as \$50 according to the size of the vehicle. But in practice our fee varies from \$10 to \$150.

SIR JOSEPH FLAVELLE: I presume it will be generally admitted that we must have railways, and that there must be profitable operation to an extent at least sufficient to keep them in good condition and encourage such capital expenditures as from time to time may be necessary to maintain efficient service. Their revenue can be secured only from freight and passenger traffic; there is no other field in which they can hope to obtain any profit, unless it be from the doubtful experiment of hotels and other outside investments. That being the case a common interest is developed not on behalf of the railways per se but on their behalf regarded as great carrier systems necessary to the whole country, and therefore something in which everyone is concerned. Now, a truck license varying from \$50 to \$150, giving the holder permission to unrestricted use of the highway, is an inadequate charge in contrast with the heavy charge sustained by the railways through their being responsible for the entire cost of the right-of-way over which they travel. As I listened to your





statement of your effort to correct some of these difficulties, I wondered whether it had occurred to you that a more direct method of control would be secured by imposing a very much higher fee. Of course, it would stop a lot of people going into the trucking business; but as a matter of fact if they are not adequately paying the State for what is spent upon the highway upon which they carry on their business, no injustice is done if such a fee is imposed as might restrict this traffic movement.

HON. MR. MACPHERSON: I think it might be unfortunate to make a charge which might be prohibitive. That being the case, in the initial charge we felt that while the fee today is not high enough, and we are considering raising it 50 percent, there should be a further charge per ton mile for the tonnage actually carried. Taking together the initial fee, increased as we propose to increase it, plus a tonnage or a passenger charge, plus incidental charges by way of compulsory insurance and that sort of thing, I think you will find the situation will be changed considerably and there will be given to the province a return to which it is entitled for its expenditures on highway construction and maintenance. We realize that the trucks, particularly the larger ones, increase the problem of maintaining our highways to a degree that is inordinate possibly, having regard to the license fees, because unfortunately we have not concrete highways through the country; the best we can do is gravelled roads, and the trucks do have a very destructive effect on these roads.

HON. MR. MERKLEY: Has it been suggested anywhere, Sir Joseph, that the truck business should be discriminated against to protect the railways, or rather to put it on a



fair basis of competition with them?

SIR JOSEPH FLAVELLE: Surely it would not be proper as an alternative to prohibit them altogether.

HON. MR. MERKLEY: But that they should pay for the use of the highways?

SIR JOSEPH FLAVELLE: That both of them should be subjected to what might be considered a just charge.

HON. MR. MERKLEY: I think that is what we are aiming at.

COMMISSIONER WEBSTER: Mr. MacPherson, how do you propose to obtain an estimate of the actual freight that would be carried over this great province by these trucks so you could charge them accordingly?

HON. MR. MACPHERSON: It might be difficult to work out. They would have to file from time to time statutory declarations of the amount of freight that was actually being carried, and inspections would have to take place. The details would be difficult to work out. Remembering all the time that you have control over the individual men by way of the license or franchise granted to them, and which would be subject to cancellation in the event of any violation, you would have to work it out in that way.

HON. MR. MERKLEY: If they were put on a proper basis with the railways all freight would come under the bill of lading system, and they would have to report periodically as the regulations stipulated.

HON. MR. ANDERSON: We have under consideration the setting up of a Public Utilities Board, similar to the Board of Railway Commissioners, with a view to looking after the whole project.

COMMISSIONER WEBSTER: It would seem that some such



system would be only fair in order to establish an equitable arrangement between the motor vehicles and the railways.

HON. MR. MERKLEY: It might have to come under the bill of lading system the same as the railways. Then the operators of those motor vehicles would be compelled to report their earnings or tonnage at the end of each trip or week as the regulations called for.

HON. MR. MACPHERSON: In the matter of the railways generally, in this province we feel that in an ordinary year, having regard to the freight that is carried from this province, there are very few areas which are too well served by railways. Freight rates cause a great deal of concern here because of the fact that we are right on the watershed of freight rates; it is from Saskatchewan that grain goes east and west, and we pay the highest rates in the Dominion. Consequently we are concerned very vitally with freight rates, and we feel that if from Winnipeg east, in that area where the railways have a long dead haul, a coordination of the railway services would effect economies which would be of substantial benefit to our people on the prairies. I think you will find that there are very few places in this province where there is any undue railway service; the lines are feeders to the main lines, and in an ordinary year the receipts of both railway companies will show that from this province they have obtained a relatively large amount of their revenue. They have received it from the very watershed of freight rates, as I have said, because to go east we pay the highest freight rate, and to go west we also pay the highest freight rate. We do not notice it so much when wheat is \$1.50 a bushel, but when wheat gets down to 50 or 60 cents a bushel



we do notice it.

COMMISSIONER LOREE: At the same time the cost to the railroad is not changed.

HON. MR. MacPHERSON: No; but Mr. Loree, we are suggesting that in any coordination the cost to the railways might be reduced. The economies we suggest could be effected where the line runs through a country that is barren of freight revenue at the present time.

COMMISSIONER LOREE: With regard to another maladjustment, what is the situation in regard to wages? I have the figures of one of the American lines, and to me they are very interesting. The number of employees in 1930 as compared with 1913 shows a decrease of 12 7/10 percent, but the hours of labour were reduced during that period from 10 to 8, so that the total man-hours worked by the employees was reduced by a little over 25 percent. Now, the total wages paid the employees have risen during that period from \$9,475,000 to \$20,220,000, or 113 percent. The railroad in 1930 earned about 3 percent on its capital stock; but if the wage rate had remained at the 1913 scale it would have earned 20 percent on its capital stock. Now, is that the heart of the maladjustment which has brought us all into distress?

HON. MR. Mac PHERSON: I do not think we can give you the figures that would throw any light on the figures you have given. Undoubtedly wages have increased in Canada to the same extent as they have in the United States since 1913, largely due I think to a certain award that was made there, for it affected us directly. That matter, as you know --

THE CHAIRMAN: Mr. Loree never heard of it !





HON. MR. MERKLEY: Yes; but what of the increase in earnings on the road during that period?

COMMISSIONER LOREE: I have not that; I can furnish it.

HON. MR. MERKLEY: The earnings increased proportionately.

COMMISSIONER LOREE: Oh no, nothing like it. The result is that instead of earning 20 percent on the capital stock they earned 3 percent.

THE CHAIRMAN: The capital stock remaining constant?

COMMISSIONER LOREE: Yes. Whatever increase there was in earnings was swallowed up in wages.

HON. MR. MERKLEY: But the dividends were paid just the same.

COMMISSIONER LOREE: Not out of earnings.

THE CHAIRMAN: Out of reserve?

COMMISSIONER LOREE: Yes, out of reserve.

THE CHAIRMAN: 3 percent earnings would not give much of a dividend. It is a delicate and difficult question, but these figures of Mr. Loree's show how serious it is.

HON. MR. MacPHERSON: It is wrapped up very much with the whole problem; we realize that. I think the Prime Minister stressed the fact that we feel very strongly there should not be an amalgamation of the two systems.

THE CHAIRMAN: Yes. We should be most glad to hear your ideas about that, Mr. MacPherson, and the future of the railways.

LORD ASHFIELD: If I might interrupt a moment? You will appreciate that the present situation arises out of a policy based upon competition?

HON. MR. McCONNELL: That is excessive competition.



LORD ASHFIELD: Out of competition. It may be excessive; it is a matter of degree. But the management of the railways is vested in two separate organizations, each striving to make a success of their own particular undertaking. Of course, that is the policy.

THE CHAIRMAN: Mr. McConnell means uncontrolled competition.

HON. MR. McCONNELL: Yes.

THE CHAIRMAN: That is the effect of uncontrolled competition.

HON. MR. MacPHERSON: We agree that competition might become very expensive, particularly in railways with the vast sums of money that today in Canada are being involved by virtue of the competition so far as it has been carried on. But at the same time so far as amalgamation is concerned we feel, speaking for the general sentiment in Saskatchewan, there is a very very definite and very very strong feeling against absorption of the Canadian National Railways by the Canadian Pacific Railway in any way.

THE CHAIRMAN: Or inversely?

HON. MR. MacPHERSON: Or inversely. I do not know that it exists to the same extent, but I believe you will find a body of sentiment that will say the Canadian National could absorb the Canadian Pacific. But personally I feel it would be just as wrong to have amalgamation one way as the other, and that really it is to the interest of the province as well as of the Dominion generally that the two systems should continue. We feel, however, that there should be coordination to the greatest possible degree in order to eliminate wasteful competition. And we have wasteful competition at the present time.



THE CHAIRMAN: Have you thought out at all the method by which coordination can be brought about or can be regulated? Of course, there is such a thing as voluntary cooperation; if that were effective no doubt that would be the most satisfactory of all, but assuming the difficulties with regard to that are such as not to make it a very promising method, have you considered any substitution for it?

HON. MR. MacPHERSON: Yes. I think a joint board might be set up on which there would be representation of both the existing systems, and that they should have the right to direct and control the expenditure which is now being made.

HON. MR. McCONNELL: A board of some kind could have controlled the inland water service of British Columbia, where the C.N.R. put on boats to compete with an established service.

THE CHAIRMAN: That is a pretty palpable case, is it not?

SIR JOSEPH FLAVELLE: Mr. Prime Minister, while you did not specify, you indicated there were a score of cases of two lines running alongside each other, and the service could be performed presumably if both companies used one line. Is that what you mean?

HON. MR. ANDERSON: Here is one illustration, Sir Joseph. Every night at 11.55 a C.P.R. train leaves for Saskatoon; at the same time we have another train over the other line; each arrives at Saskatoon at 6.30 in the morning at two different stations. Similarly the C.P.R. and the C.N.R. have day trains. My personal feeling is that it might be good business, say, to have one of the day trains





over one line with mail and express, and one of the night trains over the other line with mail and express, because there are lots of towns to be served on each line, but the goal is the same in each case. Sometimes there are very few passengers on the night train. That is one case I have in mind; there are others, but I could not mention them offhand. At Biggar and Wilkie the lines are about a mile apart.

HON. MR. McCONNELL: At Unity and Saskatoon the C.P. R. and the Grand Trunk Pacific are very close together.

HON. MR. ANDERSON: Nokomis.

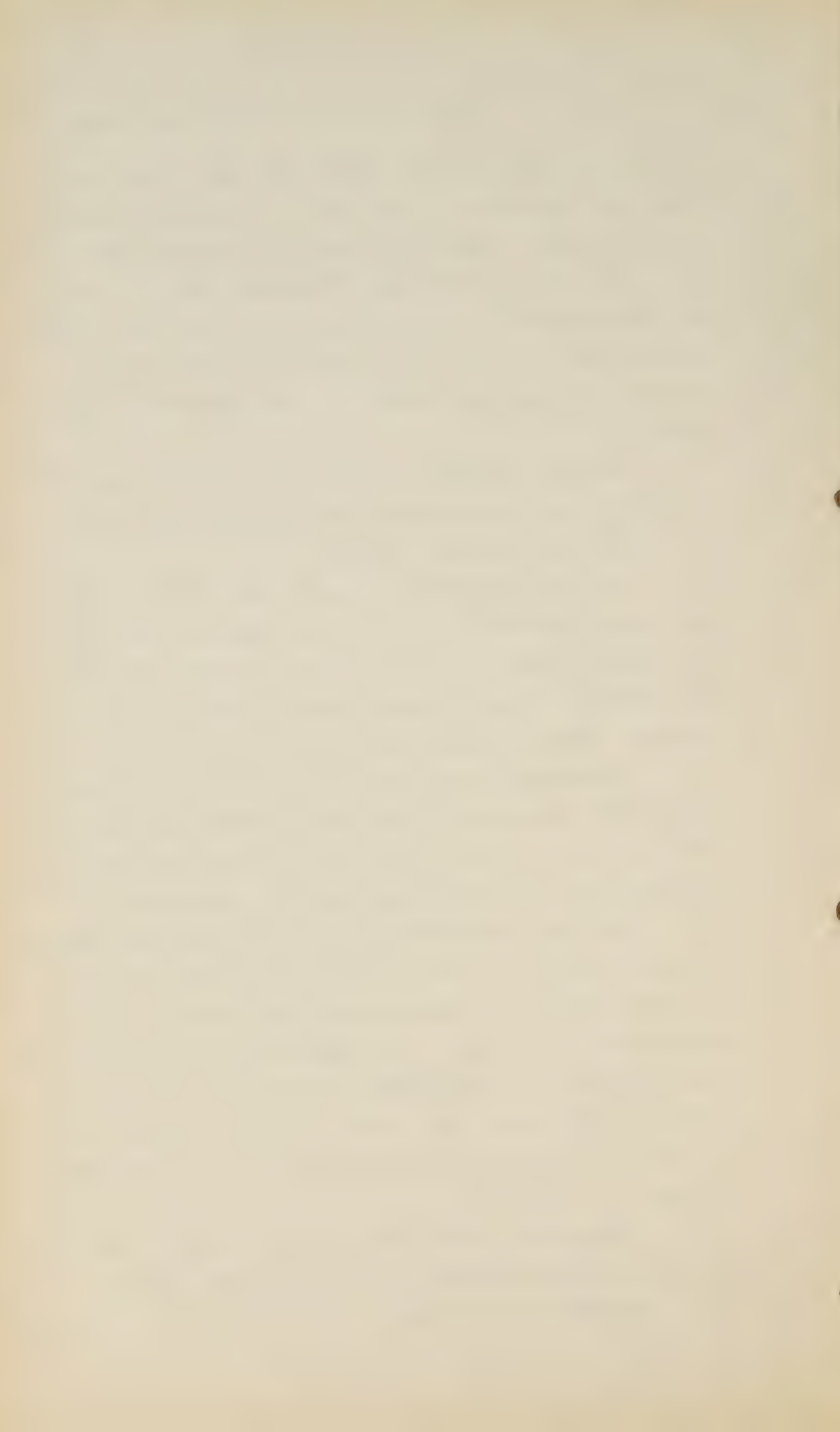
HON. MR. MacPHERSON: We think there is no reason why in so many towns of the province there should be two separate stations; there is not the business to warrant such duplication, and we suggest Union stations. That change could and should be easily made.

COMMISSIONER LEMAN: Mr. Prime Minister, as we went through the two provinces to the west we found that each of them had become involved on account of railway guarantees. Has there been any similar experience in Saskatchewan?

HON. MR. MacPHERSON: As a matter of fact, Mr. Leman, we are involved to the extent of some \$27,000,000; but it is not recognized as a provincial contingent liability even, because it is in respect of the Canadian National lines which have been absorbed by the Dominion government. We have no problem of that kind at all. While on paper it appears as a contingent liability of the province, it is not considered as such.

COMMISSIONER LEMAN: You have had no line to take over, nor do you contemplate having any to take over?

HON. MR. McCONNELL: No.



SIR JOSEPH FLAVELLE: There is a contingency which is almost inconceivable. If the particular line which you guaranteed were abandoned, the bond holders might say, "We hold the guarantee of the province; we want you to pay." What would be your position in such a case?

HON. MR. MacPHERSON: Unquestionably there is an existing legal liability, but in view of the railway having been taken over by the Federal government, we have not considered such a contingency, and I don't think the banks have considered it, Mr. Leman. That being so, it is pretty well wiped out.

SIR JOSEPH FLAVELLE: You spoke of a joint board composed of representatives from both railway systems. I take it for granted there would have to be umpire members of the board with authority to vote and control the situation in the event of any difference of opinion between the respective railway representatives. Competition does not easily lend itself to cooperation -- indeed my friend would say it is impossible. If the two roads continue as they are competing one with the other, the regulating force for the unnatural competition that has developed must be some authoritative board on which the two railways would have representation, and they could be directed by the board as a whole to do whatever might be considered necessary in the circumstances. You have to bear that in mind.

HON. MR. MacPHERSON: That is right. I think otherwise as Mr. Justice Duff stated, if they would voluntarily do these things it would be unnecessary to have a board at all. But I think it is recognized that the voluntary effort could go so short a distance that it is necessary to have something further to make it effective.



COMMISSIONER LEMAN: But if you divide the areas wherein they operate, where is the competition?

HON. MR. MacPHERSON: If you take a map of this province, Mr. Leman, and block out any particular area, you will find that both the Canadian National and the Canadian Pacific are functioning there.

HON. MR. McCONNELL: The division would apply only to new areas, of course?

HON. MR. MacPHERSON: So far as new areas are concerned we feel there should be a restriction.

COMMISSIONER LEMAN: There would be no competition in that case.

HON. MR. McCONNELL: No.

HON. MR. MacPHERSON: In any future railway development in the province competition should be restricted definitely.

HON. MR. BUCKLE: Has any thought been given to the matter of more internal storage elevators, company owned or government owned, so the replacement of rolling stock would not be so huge as at the present time? Now all the grain is rushed forward during a short period of the year and the rolling stock is idle the rest of the year. If the haulage could be extended over a considerable period of time the replacement of rolling stock would not be so heavy.

THE CHAIRMAN: Would that be practicable from the grain growers point of view?

HON. MR. BUCKLE: I think so. We see a jam occurs at the other end, and the grain has to be held here anyway.

COMMISSIONER LOREE: If you add up the elevator capacity in the United States you will find that the entire winter wheat crop, if harvested in one day, could be





accommodated in the elevators. It is purely a market condition.

HON. MR. BUCKLE: That is in the United States only.

COMMISSIONER LOREE: Yes.

HON. MR. BUCKLE: Of course, the farmers here have to hold their wheat on their farms, whereas if there was inland storage space they could get their money.

SIR JOSEPH FLAVELLE: You have considerable inland storage space at Winnipeg.

HON. MR. BUCKLE: And Moose Jaw.

SIR JOSEPH FLAVELLE: It is only a question, I presume, of extension?

HON. MR. BUCKLE: Extension of the present service.

COMMISSIONER LEMAN: Has that matter been studied?

HON. MR. BUCKLE: That is just what I was asking. Has any consideration been given to it by the Commission?

THE CHAIRMAN: It is the first time that any mention of it has been made to us.

SIR JOSEPH FLAVELLE: You are thinking of a terminal warehouse where the farmer could carry his grain because he might not want to sell? At the present time he brings it only when he wants to sell.

HON. MR. BUCKLE: They do get storage space in the country elevators. That is not what I have reference to. I mean government owned, or company owned elevators for that matter, so the grain could be held after it has left the farmers hands, and a greater period of the year could be used for hauling it to the lake ports, for instance.

SIR JOSEPH FLAVELLE: You are speaking of the distribution of the haulage over the railways?

HON. MR. BUCKLE: Yes.





HON. MR. MacPHERSON: It would mean fewer cars and less pressure. They have the internal system at the head of the lakes.

HON. MR. MERKLEY: They have not used the Strathcona elevator for some years.

SIR JOSEPH FLAVELLE: Largely, I presume, because the farmer did not want to deliver the grain. For instance, at the present time you have very light deliveries.

HON. MR. MacPHERSON: Because the farmer has not had the grain to deliver, unfortunately.

SIR JOSEPH FLAVELLE: There is a good deal of grain still in the hands of the farmer, only he feels disappointed in the price. When the price went up a few weeks ago deliveries were free. Naturally when the price breaks he elects to hold his grain because he feels the price is lower than it ought to be. He has a perfect right to exercise that judgment.

HON. MR. MERKLEY: I think that is due to the fact that grain has been going west to a certain extent during the last few years. It does not go east practically beyond Medicine Hat.

SIR JOSEPH FLAVELLE: I am speaking from the standpoint of the delivery of grain by the farmers, which is reflected in the amount of money which is required to move the grain. At that time there was a very sharp increase when the price went up, and there has been a very sharp decrease since the price went down, proving logically the feeling of the man who held his wheat to be this: I think there is something wrong with the present price and I don't want to sell.

HON. MR. BUCKLE: Of course the grain shipments to



the East from Vancouver and the additional storage there may solve the distribution over a longer portion of the year.

SIR JOSEPH FLAVELLE: Mr. Prime Minister, when you spoke of the hope entertained in this province that the Hudson Bay Railway will be one of the great factors in your development, you rather indicated there was some comment that delay was being practised. What is the occasion for the delay? The road is completed is it not?

HON. MR. ANDERSON: Yes. There was something in the local press recently that there would be some delay in the opening of the townsite. That I think is in the hands of the Manitoba government.

HON. MR. MacPHERSON: Yes.

HON. MR. ANDERSON: The official opening of the Port is supposed to take place in 1932, and there was some press comment to the effect that it might be delayed.

COMMISSIONER LEMAN: Has that not taken place?

HON. MR. ANDERSON: Two boat loads of wheat have gone out.

SIR JOSEPH FLAVELLE: You would not expect grain to be moving there now.

HON. MR. ANDERSON: Oh no.

SIR JOSEPH FLAVELLE: Your shipments can only be from June or July to September or October, or later according to the character of the season. You would hardly expect either the farmer or the grain dealer would want to carry grain in elevators at that point when he might want to sell and make delivery while there was a betterment in the market instead of waiting until the following July to have his grain go forward. That will always retard the



free movement of grain to the Port, because you have only four months navigation in the year.

HON. MR. McCONNELL: About the same as the St. Lawrence !

COMMISSIONER LEMAN : That is hard on the St. Lawrence.

SIR JOSEPH FLAVELLE: If that were the case you would have a very much more valuable means of getting your grain out. Unfortunately nature has decreed that that is impossible.

HON. MR. ANDERSON: I heard one man very high up in railway circles remark that he never expected to see wheat taken out over that line. But these two boatloads have gone out.

SIR JOSEPH FLAVELLE: Undoubtedly there are periods when grain will go out over that line; but there is always a difficulty in using a Port where the length of time that it can be used is by nature greatly restricted.

HON. MR. BUCKLE: There is only this province, a little of Alberta and probably a portion of Manitoba that could economically use it anyway.

COMMISSIONER LEMAN: Is not this province most advantageously situated to use the Hudson Bay route?

HON. MR. BUCKLE: Yes, it means more to us than anybody else.

HON. MR. MacPHERSON: It means more to us because we are paying a ruinous rate on haulage whichever way we go, and whether right or wrong 95 percent of the people of this province have an abiding faith in what ultimately the Hudson Bay Railway is going to do for them. They may be altogether wrong.





COMMISSIONER LEMAN: That is the trouble of being the heart of the Dominion.

HON. MR. MacPHERSON: Then there is the feeling that the east is not so enthusiastic about it, whether that feeling be right or wrong.

COMMISSIONER LOREE: Mr. Prime Minister, going back for a moment to the suggestion I made a short time ago. After all, this Commission has a very hard problem before it to try and assemble all the facts and then reach a conclusion from those facts that will be useful. The suggestion has been made by the Attorney General that lines could be abandoned. It seems to me that that is a perfectly fair suggestion. But the line I spoke of in the States abandoned two branches, and I should say their combined length in relation to the total mileage would be at least equal to any abandonment that can be secured in the Dominion. The suggestion was made that some of the stations could be consolidated. The line I speak of has abandoned 22 percent of its stations. Contrasting the two periods, before the war and today, it is working a force that is 25 percent less with nine hours of service per day, yet it is paying out in wages \$2.84 for every dollar that it paid out before.

When I was down in Mexico as a youngster, I was very much impressed with the number of men I saw walking about the streets with a little leaf underneath the temple. I asked my companion who had formerly resided there, why they wore it. He said to cure headache. I inquired, "What is the cause of the headache?" He replied, "A disordered stomach caused by using too much pepper in their food." "Well," I said, "wearing a patch on the head is not going to cure a headache which originates in the stomach."



He agreed, "Not at all." Now, where is the stomach of this proposition we are facing? Why delude ourselves by considering only the location of the pain and not the cause of it?

FON. MR. ANDERSON: We have the headache all right.

COMMISSIONER LOREE: There is no question about that.

HON. MR. MacPHERSON: You referred, Mr. Lorce, to my saying that lines should be abandoned. What I said was this: So far as this province is concerned most of our lines are by way of feeders, and I do not think you would find it necessary to abandon any of them, because they are contributing to the main arteries of railway traffic; but what does concern us is the long dead haul over the area from which no local traffic is obtained, and if there is a chance of securing coordination in that area it would result in economies being effected which would be reflected throughout the whole system. If the railway map is consulted it will be found that in our province there are very few instances where the lines are not real feeders and do not justify themselves -- that is to say, in a year when we have ordinary crop conditions; they cannot be judged by the last two or even three years, because unfortunately there has been an abnormally light crop.

COMMISSIONER LOREE: The situation could be cured if the rates were doubled; but that is impossible. Therefore it can only be cured by reducing expenses.

HON. MR. McCONNELL: Yes.

HON. MR. MacPHERSON: With respect to increasing rates, we could not be too emphatic in impressing on the Commission that an increase of freight rates would be disastrous so far as agriculture is concerned in this province.



COMMISSIONER LOREE: You must get it through reduction of expenses?

HON. MR. MacPHERSON: Yes. It would be absolutely disastrous to raise freight rates, and at that we realize they are lower in the United States.

HON. MR. McCONNELL: It costs 14 cents on a bushel of wheat between here and the head of the lakes, whether the wheat is worth \$1.50 a bushel or only 30 or 40 cents. That is the unfortunate part of it.

HON. MR. MacPHERSON: We are hoping that the price of wheat will not be stabilized at present levels. But even at that we have given recognition to the fact that during the last two years it has been at very low levels. Naturally this decline in the price of wheat and other grains has produced a great deal of distress in our province because a great many of our people have gone into new districts, and this has involved expenditure on educational and other services. Possibly we have gone further in many ways than we should have done to provide these services. They cost money; money is being borrowed at high rates of interest; to try to repay capital as well as meet current interest with commodity prices what they are is very difficult at the present time. Therefore any increase in freight rates would be absolutely disastrous to us.

COMMISSIONER LEMAN: Are the settlers you are sending up north going in more for diversified farming and cattle raising?

HON. MR. MacPHERSON: Yes. The country there lends itself to that particular line of farming.

COMMISSIONER LEMAN: And real progress is being made in that direction?



HON. MR. MacPHERSON: Yes.

HON. MR. ANDERSON: They have not had much time yet to establish themselves, but the majority of them are happy and contented and realize that they have a good chance for the future. We are doing what we can to assist them to get started.

COMMISSIONER LEMAN: As that line of farming develops we must realize that it will not be so large a feeder for railway transportation as the growing of wheat.

HON. MR. MacPHERSON: No.

HON. MR. MERKLEY: The white lines on the map represent the Canadian Pacific and the red lines the Canadian National.

THE CHAIRMAN: They interlace.

HON. MR. MacPHERSON: They interlace. At the same time very few of them are close together at any place, and when a farmer has to haul his grain any distance it makes a great difference to him.

THE CHAIRMAN: What I said had reference to the suggestion of dividing the country into spheres. Do you think there is very little avoidable duplication there?

HON. MR. MacPHERSON: I do not think there is much as a matter of fact because they are feeder lines to a great extent under normal circumstances.

THE CHAIRMAN: Quite so.

HON. MR. McCONNELL: Outside of Ontario we have more mileage than any other province.

HON. MR. MERKLEY: This is the line running into Meadow Lake. This line from St. Walburg runs to Loon Lake and joins the Bonnyville line in Alberta. That is where the new settlers have gone.





THE CHAIRMAN: The Meadow Lake rails have not yet been laid?

HON. MR. MERKLEY: Only up to this point.

COMMISSIONER LEMAN: What is the railway mileage in the province?

HON. MR. MERKLEY: Longer than in any other province except Ontario.

THE CHAIRMAN: You do not mean a greater proportion of mileage?

HON. MR. McCONNELL: No, actual mileage. I do not think Quebec has more than ours.

SIR JOSEPH FLAVELLE: I would not be surprised if you had more than Ontario.

HON. MR. SMITH: We have a mile of railway for every hundred people.

HON. MR. MERKLEY: I have the information downstairs in my office. In Canada we have 235 people per mile of railway. In the province of Saskatchewan we have slightly over 100 persons to each mile of railway, or less than one quarter of the average of the United States, or less than one tenth of the average of European countries including Great Britain.

HON. MR. McCONNELL: We have about 7,000 miles of railway in this province, I think.

HON. MR. SMITH: A year ago we had 7,600 miles; there has been other construction since then.

COMMISSIONER LEMAN: Close to 8,000 miles?

HON. MR. SMITH: Over 8,000.

COMMISSIONER WEBSTER: When you referred to long un-productive hauls, were you referring to this province or to Canada generally?



HON. MR. MacPHERSON: To Canada generally.

THE CHAIRMAN: Along the north shore?

HON. MR. MacPHERSON: Yes. So far as this province is concerned in a normal crop year all the lines are feeders to the main arteries. It is when you get out of this province down along the north shore of Lake Superior and out through the mountains that you have areas that do not produce any local freight for the railways.

COMMISSIONER LEMAN: Can you give us the figure of your highway mileage?

HON. MR. MacPHERSON: We will be submitting a written statement, and I would rather give the information to you in that form in order that it may be accurate. We have different classes of highways: Provincial highways, main marketing roads and colonization roads of various kinds. The provincial highway system would be really the only system on which there would be any effort on the part of trucks to serve the public to any extent; that is where our licensing and regulation would apply.

HON. MR. ANDERSON: We have something over 1,200 miles of gravel road.

COMMISSIONER LOREE: Mr. Prime Minister, your railway mileage does not impress me as being too large from the standpoint of bulk. I think it is not any larger proportionately than the mileage in Iowa, Kansas or Nebraska. Perhaps the development there was a little more rapid, but with the same population and territory you would be in the same position as they are in regard to transportation facilities. The only difference is in population density.

THE CHAIRMAN: You are going to let us have a memorandum about your highways?



HON. MR. MacPHERSON: Yes.

THE SECRETARY: And figures of your motor licenses, number of cars, and so on.

HON. MR. MacPHERSON: Yes.

THE CHAIRMAN: Well, Mr. Prime Minister, we are very much obliged to you for giving us this opportunity of having your views and those of your Cabinet.

At 12.15 p. m. the Commission adjourned.

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ROYAL COMMISSION ON RAILWAYS AND TRANSPORTATION

The Royal Commission appointed to inquire into the whole problem of transportation in Canada, particularly in relation to railways, shipping and communication facilities therein, having regard to present conditions and the probable future developments of the country, met at the Parliament Buildings, Regina, on Thursday, December 17, 1931.

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PRESENT:

RIGHT HON. LYMAN POORE DUFF, P.C.,	Chairman
RIGHT HON. LORD ASHFIELD	)
SIR JOSEPH W. FLAVELLE, Bart.,	)
BEAUDRY LEMAN, Esq.,	)
LEONOR FRESNEL LOREE, Esq.,	)
WALTER CHARLES MURRAY, Esq.,	)
JOHN CLARENCE WEBSTER, Esq.,	)

Commissioners

Arthur Moxon, Esq., K.C., Secretary

George W. Yates, Esq., Assistant Secretary

PUBLIC MEETING

Representations were made to the Commission by:

Mr. Robert H. Milliken, for the Saskatchewan  
Wheat Pool

Mr. W. Stephenson, for the Dominion Trades and  
Labour Congress, Saskatchewan  
Executive

Mr. L. A. Blackwood, Moose Jaw Board of Trade.



Parliament Buildings, Regina  
Thursday, December 17, 1931

AFTERNOON SESSION

The Commission met at 2.15 p.m.

THE CHAIRMAN: I think we are first to hear from Mr. Stephenson, Chairman of the Saskatchewan Executive of the Dominion Trades and Labour Congress.

MR. W. STEPHENSON (Dominion Trades and Labour Congress, Saskatchewan Executive): Mr. Chairman and members of the Commission, on the invitation of the provincial Minister of Labour we have prepared a document for presentation to the Commission, and if it is agreeable to you we will read it and hand it over to your honourable body for consideration.

THE CHAIRMAN: Yes.

MR. STEPHENSON: I have much pleasure in calling on Mr. Davis, our Secretary, to read the presentation on behalf of our executive.

MR. H. D. DAVIS (Secretary, Saskatchewan Trades and Labour Executive): This report, Mr. Chairman, is to the Royal Commission investigating railway matters. It is as follows:

At the request of the Minister of Labour of Saskatchewan, we are herewith presenting you with the views of the membership we represent in this province, known as the Trades and Labour Congress of Canada, Provincial Executive of Saskatchewan, and representing as we do the majority of Trades unionists of various classes in this province and Dominion.



Quite naturally representing the majority volume of purchasing power, i.e., the wages of the workers, and as it is beyond dispute, that eventually we, as citizens of Canada have to pay the bills incurred by the various railways in this Dominion; therefore in the light of their viewpoint we make the following suggestions, based on facts both scientific and technical.

#### Costs

We believe that this factor undoubtedly led the Dominion Government to appoint your honourable body, therefore it can be considered as a major factor.

The history of the development of the railways in this country is replete with all kinds of instances, where Governments, irrespective of their political party and actuated by the apparent desire of our citizens, have from time to time given grants of land and money to the railways to build main and branch lines, and seem to have been actuated by a desire to fully develop the Dominion as a whole, based on economic conditions prevalent at the time that the money or grants were made, and for that reason to a very large extent, no blame can be attached to these bodies.

Due no doubt to superenthusiasm at the time, hotels, ships and other projects were gone into by the railways, all of which have undoubtedly contributed towards the present financial crisis which you are facing.

Our members are of the opinion that due to the enormous debt thus incurred to date, that in so far as the Canadian National is concerned such national debt should be based on the amount of money that all the lines now known as the Canadian National Railways owed



prior to 1918, and no account revenue purposes should be taken into consideration that includes duplication of lines, and extra heavy building costs, due to war conditions, but that as Canada is very seriously dependent on lines of transportation such as railways, in order to keep the daily lives of the citizens of the Dominion normal, then to preserve the natural sequence of the demand of our people for increased transportation facilities, any moneys now charged to the Canadian National Railways, which have been incurred due to the people's expressed desire, should be added to the Canadian National debt forthwith and not chargeable to the Canadian National Railways, and further that a basis be set as a fixed amount on which the Canadian National Railways will or should be able to earn dividends, based on economic conditions and general efficiency, and the indebtedness incurred under normal economic and financial conditions.

In so far as the Canadian Pacific Railway is concerned we are of the opinion that a reserve fund taken from the extra profits made by this concern during its years of operation should be set up, said fund to take care of abnormal conditions such as we now face, and that a limit of this company's dividends be declared by governmental authority to be not greater than that paid by Dominion Government bonds.

We feel that due to the fact that this company has received vast sums of money and land from the citizens of this country, that to that extent they are indebted to our citizens to maintain services at a fair return based on the interest rates established by the Dominion Government bonds, and not the unnecessary rates of dividends





paid for some years past.

One other notable feature entering into the question of costs must be borne in mind by your body, and that is that due to economic and post war conditions, thousands of our men returning from overseas from 1918 until the close of the war were absorbed into the railway industry by pressure brought to bear by the government of that particular day, who gave instructions that jobs were to be created for the returned soldiers irrespective of whether the railway industry as such could economically stand that increased cost.

Because of this fact we are of the opinion that such large sums as these costs have created should be rightly charged to the re-habilitation of these men and not to the railway corporations generally.

If, due to dull economic conditions or periods of world depressions, the railways are urged to create as much employment, whether necessary or not, by the government of that day, then we submit that the costs of same should be borne out of other revenues that the country has outside of the railways.

Truck and bus competition.

This is also a major factor, and one which should be given particular attention to by your honourable body.

The foolhardy development of highways based on political requirements in the main have undoubtedly entered gravely into the serious loss of traffic by the railways. Because of this undeniable fact, a standard tax and fixed rate should be placed on the vehicles using the highways, and should be controlled by a provincial commission who would fix rates that would be standard for the Dominion of



Canada, based on a fair wage and working hours for the employees of these vehicles, and also a fair return for the amount of capital thus employed, said return to be no higher than the citizens generally receive for gilt edged security, such as Dominion and provincial Government bonds.

Where highways are projected that run parallel with the established railway lines for a distance of more than one hundred miles, then such means of transportation should only be built after due consideration is given to the project by the Dominion and provincial governments and the local governing authority, such as the local government board, in so far as the expenditure of public money is concerned.

We feel that by cooperation of all public bodies controlling the expenditure of moneys for this specific feature much unnecessary duplication of effort and useless expenditure of money will be avoided.

All such working conditions to be based on the Treaty of Versailles and the schedules laid down and agreed to by the trades union movement.

All present truck traffic to be at once controlled by a public body, similar to the Railway Commission, who will give due heed to the necessity for the railways to pay a fair return on their indebtedness, thus creating a very necessary stability for railway bonds in so far as it affects the savings of the workers, by investments in this respect by life and other insurance companies.

Elimination of waste and unnecessary supervision.

Under this heading our members feel that serious consideration should be given by your honourable body to the importance of these items.



We are of the opinion that in so far as the elimination of waste is concerned, on the railways that do not have the cooperative management plan in effect, same should be established. All recognized railway trades unions should be asked by the railway management affected to join with their officers to plan and take care by cooperative effort of this very important object, and we feel that by so doing a greater degree of confidence will be maintained than that which has hitherto existed on roads where such a plan is not in existence.

Unnecessary supervision is a live topic among our members, and due to the better educational methods and practices that have been in effect throughout Canada for some years now, there can be no argument put forward that can prove that generally speaking railway and other workers have, because of facts, not become keener intellectually and mechanically. Therefore if that be a fact, which our members believe that it is, as per statements of Sir Henry Thornton and others, then there can be no justifiable need for the maintenance under any consideration of the present system of supervision which is not only costly but grossly inefficient.

We submit that men employed for years by any commercial concern, such as the railways are, must be efficient, otherwise they would not be kept on the job, and therefore in conjunction with the cooperative management plan suggested in the foregoing, there can be no serious justification for a continuance of the present unnecessary system of over supervision, all of which adds materially to the cost of running the railroads and cannot be warranted by our present educational system which, of necessity, turns employees





out of a higher efficiency standard than that in existence some years ago.

We might also point out that if such a plan were put into effect the cost of much unnecessary experimentation with new mechanical appliances, which are costly and are often discarded only when said cost has become excessive, will be done away with.

Further than this it must be recognized that the status of the railway workers generally must be placed on a plane whereby they will be regarded as being something else in the running of the railway than mere details, and the acceptance by the employees, through their recognized trades unions, of greater responsibility will redound to the best interests of all concerned, whereas under the present very limited system in this regard, operation by roads other than the Canadian National Railways is not conducive to the welfare of the citizens of this country, who have large sums of money invested in railways.

#### Pensions.

Should this subject be dealt with by your Commission, and any change suggested, we respectfully submit that any changes decided on by your body should not act detrimentally towards the workers but rather should be of a generous nature taking into consideration the great need for the protection of men who become old and at times incapacitated in industry, and of the urgent need for the workers generally to be retired at a much earlier age than that which exists.

#### Amalgamation of railways.

Our members desire on this specific item to draw your attention to the fact that we are of the opinion that



if such a step is planned or decided on by your honourable body, the citizens of this country will demand that said amalgamation be taken on a basis of public ownership and democratic control of the transportation facilities.

Transportation is the life blood of our country, and as such must be run by and for the benefit of the people and not in the interests of profit.

As was pointed out very clearly at the outset of this submission, the citizens of this country have expended a tremendous amount of energy, money and land for the benefit of the transportation industry, therefore we submit that taking into consideration their stake in this field, they are not prepared to hand over such a vital interest in their welfare to the hands of those who seek only to make dividends and more dividends, and while it is true that due to various conditions, economic and commercial, some of the railways are now in a state of financial embarrassment, yet it is also true that such a condition cannot be attributed to the lack of loyalty of the railway employees generally but rather to the tactics of politicians and others, not always interested in the future welfare of our country. Therefore any move on your part touching on the specific item mentioned should take careful and serious cognizance of public opinion on the matter of their desire as expressed from time to time for a policy of public ownership and control.

All of which is respectfully submitted.

This is signed by Mr. Stephenson as Chairman of the Executive and by myself as Secretary.

THE CHAIRMAN: We are much obliged to you, Mr. Stephenson and Mr. Davis. Your representations will re-



ceive due consideration.

We will now hear from Mr. Milliken, counsel for the Wheat Pool.

MR. ROBERT H. MILLIKEN (Counsel, Saskatchewan Wheat Pool): Mr. Chairman and gentlemen, I wish to make a submission on behalf of the Saskatchewan Wheat Pool, more properly called the Saskatchewan Cooperative Wheat Producers. Before submitting for your consideration our views on the railway situation, may I point out for the information of your honourable body that Saskatchewan Cooperative Wheat Producers, Limited, is purely a Saskatchewan organization, composed of some 80,000 farmers, and that the Saskatchewan Pool Elevators, Limited, is a subsidiary organization of Saskatchewan Cooperative Wheat Producers, Limited, owning and operating a country elevator system of some 1,050 country elevators situated in the province of Saskatchewan, as well as extensive terminal elevators at Fort William, Ontario, and Buffalo, New York.

For more than twenty years wheat has been the chief export commodity of the Dominion of Canada and almost all of the wheat grown in Canada during that period of time has been grown in the western provinces of Manitoba, Saskatchewan and Alberta.

For many years the only outlet to foreign markets was by rail to Fort William, Ontario, and from there on to the Atlantic seaboard by rail or through the Great Lakes. For some time past, however, Vancouver has been receiving a large part of the Alberta crop, but owing to the difference in freight rates practically all of the Saskatchewan crop still goes east through Fort William.

The cost of wheat shipped from Saskatchewan to



Europe, by rail to Fort William and by boat to the Atlantic seaboard, is approximately 28 cents per bushel, of which some  $13\frac{1}{2}$  cents per bushel is the average cost of haulage from Saskatchewan to Fort William.

The present wheat crop of Saskatchewan averages slightly better than a grade of 2 Northern, which at present market levels is quoted on the Winnipeg market at 56 cents per bushel. It can readily be seen, therefore, that with a freight haul of  $13\frac{1}{2}$  cents per bushel practically 25 per cent of the total price realized by the Saskatchewan farmer from the sale of his present crop is being paid for freight to Fort William, at which point his wheat is still over one thousand miles from an ocean port.

Under present conditions, when it is self evident the farmer must lower the cost of production in order to meet foreign competition, it is apparent that one of the most important items in that cost is the railway freight.

Believing that numerous witnesses will bring to the attention of the Commission the extravagance which has characterized the building of the railways of Canada, we shall not emphasize the point other than to say we believe the most rigid economy should be exercised in the further extension and operation of our railways and their subsidiary organizations and particularly so in reference to their hotel systems and de luxe trains, which we feel afford little or no service to the primary producer.

We understand you have already had submitted to you the suggestion that an amalgamation of the two railway systems would solve many, if not all, of their financial difficulties. We feel we are not sufficiently





familiar with all that is involved to pass an intelligent opinion upon the question, but we are convinced we are expressing the opinion of the entire membership of our organizations when we assert that if you should decide an amalgamation is the solution, then such amalgamated system must be operated as a public utility and under no conceivable circumstances must it be placed under the control or management of any private organization. We further feel that a great deal might be accomplished by a reasonable spirit of cooperation, enforced, if necessary, by adequate government control and supervision of the activities of the competing railways.

All of which is respectfully submitted.

THE CHAIRMAN: Thank you, Mr. Milliken. We will hear from Mr. Blackwood representing the Saskatchewan Boards of Trade.

MR. L. A. BLACKWOOD: Mr. Chairman and gentlemen, on invitation from your honourable body conveyed to us by the Government of Saskatchewan, the following Boards of Trade of Saskatchewan, namely, Regina, Saskatoon, Moose Jaw, Prince Albert, Yorkton, Swift Current, Weyburn, Estevan, and North Battleford, after a meeting for the purpose of considering the matters being dealt with by your Commission, desire to herewith submit their considered opinion on certain aspects of the problem before you.

Amalgamation.

1. That the Canadian Pacific Railway and the Canadian National Railways should not be amalgamated, but should continue to operate as separate and distinct entities.



titles.

Administrative economies.

2. In the interest of economy in operating costs and conservation of capital expenditures the railways should cooperate with each other in the following matters:

(a) In respect to the elimination of unnecessary duplication of services.

(b) In respect to future construction of new branch lines, having regard to which of the two railways can most effectively and economically serve the district.

In the event of the railways failing to implement this policy that the Board of Railway Commissioners should be empowered to deal with all such matters.

Regulation of trucks, etc.

3. In view of the increasing competition experienced by the railways from the new modes of transportation that hereafter buses, trucks and aeroplanes should be regarded as common carriers and be subject to regulation.

Branch Line Services.

4. We view with concern the recent curtailment of branch line passenger and freight services which inflicts hardship on residents of the areas thereby served. This curtailment encourages competition from trucks and buses. Continued study by the railways, we believe, should result in their successfully meeting this competition, and at the same time make it possible again to provide satisfactory branch line services.

Freight rates.

5. While we understand that the subject of freight rates is not now under review by your Commission, we take this opportunity of stating that we would strenuously oppose



any suggested increase in the existing freight rate structures.

Hudson Bay railway.

6. The largest single activity in Canada from an economic and financial viewpoint, is the raising, harvesting, transportation and selling of the grain crops of western Canada.

Agriculture being our principal basic industry, the development of Saskatchewan, as well as our neighbouring provinces, depends in large measure upon the net financial return to our grain producers. The spread between the cost of grain production in the prairie provinces, and the price at which grain so produced can be sold in world markets, represents the purchasing power of the producer.

One of the chief factors entering into the economic problem of Saskatchewan agriculturists is the cost of moving their grain crops long distances from the farm to world markets. It is axiomatic, therefore, that any and all transportation agencies that can assist in increasing the purchasing power of Saskatchewan producers should be employed for the reason that such increase in western purchasing power is inevitably reflected in increased prosperity for both our transportation companies, due to the increased demand for, and movement of, commodities manufactured in the more highly industrialized provinces of Ontario and Quebec, the Maritimes and British Columbia.

For this important reason, we submit that the financial welfare of the grain producers of western Canada, as well as the best interests of the railways and of the people of Canada, will be best served by the completion of the necessary facilities at the Port of Churchill, to permit the movement of grain and other export traffic at the most





economical cost of transportation, through to British and continental markets during the season of navigation of 1932.

In September last, under arrangements made by the federal government, two cargoes of Saskatchewan wheat, totalling 548,125 bushels, were exported to London, England, via the Hudson Bay route, through the Port of Churchill. This successful movement demonstrated and proved the feasibility of the route.

We submit and strongly recommend that the Government of the Dominion of Canada be urged to continue an active interest in the development of the Hudson Bay route, so that it may become an effective artery of traffic for grain and other exports produced in western Canada.

Careful consideration of the whole matter confirms our opinion that the Government of Canada might properly exercise its best endeavours to bring about an adjustment of the present marine insurance and ocean rate difficulties associated with the development of the route.

With an established and increasing movement via Churchill it is the conviction of the people of Saskatchewan that both our railway systems will experience largely increased traffic and revenue.

When the purchasing power of western Canada is restricted, the movement of manufactured goods from both eastern and western industrial centres to the prairie provinces is similarly restricted to the detriment of the net operating revenues of the transportation companies, and conversely when the people of our western provinces are prosperous the railways are likewise prosperous.

These, gentlemen, briefly represent our views on these important matters.



THE CHAIRMAN: Mr. Blackwood, with reference to the recommendation respecting branch line services which have been reduced or wholly or in part discontinued, are you authorized by your constituents to make any specific recommendation at all?

MR. BLACKWOOD: No; I think the feeling is, sir, that these curtailments may well be necessary at the present time, but we wanted to point out to your body that it is causing hardship to the people in respect to their mail services and otherwise. We wanted to bring that to your attention so that it would be considered when you are dealing with the whole problem -- that the branch lines of Saskatchewan should give adequate service to meet the needs of the people in these localities.

THE CHAIRMAN: May we take it, then, in view of what you have just said, that having regard to the urgent necessity for severe economy at the present time you are not recommending that any particular change should be made now?

MR. BLACKWOOD: No sir, we agree to that. We are hopeful that a continued study by the railways of some means of meeting this bus and truck competition would enable them successfully to operate these branches, and that they would then resume a more adequate service to the localities in question.

THE SECRETARY: We have nothing further, Mr. Chairman, except a submission in writing from the United Farmers of Canada, Saskatchewan Section, which is in effect the same submission that was made by Mr. Priestley at Calgary on Monday last. They ask that it be filed again as the submission of the Saskatchewan body.

THE CHAIRMAN: The memorandum will be considered.



THE SECRETARY: There is a further communication from Mr. L. D. McTavish, Chairman of six of the railway brotherhoods, dealing with the subject of public motor vehicles. Certain suggestions are made on the part of the railway unions for meeting the situation in which the railways find themselves. This will be filed and laid before the members of the Commission.

THE CHAIRMAN: Does anybody else wish to make any statement or representation to the Commission? If not, we will adjourn.

The Commission adjourned at 2.45 p.m.

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ROYAL COMMISSION ON RAILWAYS AND TRANSPORTATION

The Royal Commission appointed to inquire into the whole problem of transportation in Canada, particularly in relation to railways, shipping and communication facilities therein, having regard to present conditions and the probable future developments of the country, met at the Parliament Buildings, Winnipeg, on Friday, December 18, 1931.

PRESENT:

RIGHT HON. LYMAN POORE DUFF, P.C.,	Chairman
RIGHT HON. LORD ASHFIELD	)
SIR JOSEPH W. FLAVELLE, Bart.	)
BEAUDRY LEMAN, Esq.	)
LEONOR FRESNEL LOREE, Esq.	)
WALTER CHARLES MURRAY, Esq.	)
JOHN CLARENCE WEBSTER, Esq.	)

Commissioners

Arthur Moxon, Esq., K.C., Secretary

George W. Yates, Esq., Assistant Secretary

PUBLIC MEETING

Representations were made to the Commission by:

Jules Preudhomme, Esq., K.C., Counsel for the  
City of Winnipeg

Mayor W. Haigh, for Transcona Town Council and  
Board of Trade

E. C. Gilliat, Esq.

T. A. Hunt, Esq., K.C., for Winnipeg Board of Trade

W. M. Noble, Esq., Manitoba Truck and Bus Association  
and the Suburban Transit Co.

William Nursall, One Big Union, Transcona Unit

John Clancy, Esq.

William C. Pritchard, Esq.





Parliament Buildings, Winnipeg

Friday, December 18, 1931.

MORNING SESSION

The Commission met at 10.15 a.m.

HON. JOHN BRACKEN (Premier of Manitoba): Mr. Chairman and members of the Royal Commission, it is my very great pleasure this morning to welcome to the city the members of this Commission, who are here in the course of their inquiry into one of the biggest problems facing Canada to-day.

I shall not make any extended remarks at this time; I desire simply to say to the Commission that this room is at their disposal, as well as the services of any of our departments that may be of use to them. I am sure that if any public body desires to make representations to the Commission, arrangements can be made to have their submission received.

On behalf of the Government of Manitoba I am glad to welcome the Commission to this province, and I hope that while they are here representations will be made to them which will assist them in their deliberations and in arriving at a decision as to how this difficult problem can best be met.

THE CHAIRMAN: Mr. Prime Minister, on behalf of the Commission may I say that we appreciate your kind words of welcome, as well as your expression of willingness on the part of the Government to assist us in every way. I have no doubt whatever that that assistance will prove to be most valuable.

The scope of our duties, I am sure, is well under-



stood by this time. The work in which we are engaged is a work of interest not only to the Dominion as a whole but to every part of the country, and of individual interest and importance to every citizen of the Dominion. We hope that we shall be able to reach some advantageous result, although we are under no illusion whatever as to the difficulty of the task which is before us.

We shall be glad to hear now from representatives of the city of Winnipeg.

MR. JULES PREUDHOMME, K.C. (Counsel for the City of Winnipeg): Mr. Chairman and gentlemen, I do not know whether it is the wish of the Commission to have any extended presentation of the case of the city. I have here under instruction of the council a written statement. If you would desire that it be read, I am prepared to read it; if not, I will simply hand it in.

THE CHAIRMAN: If you desire to read it, Mr. Preudhomme, we shall be very glad to hear it.

MR. PREUDHOMME: Pursuant to the invitation of the Chairman of the Royal Commission, the City of Winnipeg hereby respectfully begs to submit the following:

1. The City of Winnipeg has been prominent in all questions of railway transportation in Canada ever since the city was incorporated in 1873. When the territory then under the jurisdiction of the Hudson's Bay Company was about to be transferred to Canada, and unhappy misunderstandings resulted in local disturbances, the difficulty of transporting troops to Winnipeg at once focused attention upon the need for some means of not alone bridging the distance between Ontario and Manitoba, but also overcoming the nature of the country



over which the transportation system to connect the two provinces would have to operate. This study of the territory between eastern Canada and Winnipeg was continued westward when it became necessary to link British Columbia with the rest of Canada for the purpose of making the plan of confederation complete.

2. It was realized that for the purpose of carrying out the plan of confederation by physically connecting the provinces and providing for communication between them, the object to be attained was the movement of traffic east and west. In the maritimes the traffic had already been moving north and south, and in Ontario and Quebec American railways were tapping fruitful Canadian territory.

3. To secure the necessary traffic on the Canadian railway moving into the prairies so as to make its construction and operation an economic possibility, there was inserted in the contract between the Canadian Government and the promoters of the C.P.R. what was commonly known as a "monopoly clause." This provided, not that the C.P.R. should have a monopoly of all the traffic which could possibly be available for the projected railway, but that no railway should be built from Winnipeg running in a southerly or southwesterly direction -- or in other words, no railway should be built from Winnipeg towards the boundary of the United States of America.

4. The strategic position of Winnipeg as a railway centre was thereby recognized by the railway experts of the day, and assented to by the government of the day when the agreement was made, the government





undertaking by that agreement to prohibit the construction of any railway which would connect the city of Winnipeg with the railway systems of the United States of America, and this plan was actually carried out by the Dominion Government when it disallowed legislation passed by the province of Manitoba for the purpose of promoting railway construction from Winnipeg connecting with the railway systems of the United States to the south, and this legislation was passed twice and twice disallowed by the Dominion Government, resulting in serious disturbances in the city of Winnipeg which threatened to destroy some of the property of the C.P.R., and then only the Dominion Government desisted and the legislation passed by the province was allowed to stand.

5. The territory around the northerly shores of the Great Lakes has been designated a bridge -- that is to say that although it is territory which must be traversed between two traffic bearing sections of Canada, in itself, owing to its physical and geological conditions, it produces no traffic. In travelling from east to west after traversing the bridge one enters what has been designated the funnel or the neck of the bottle, which is the territory between Fort William and Winnipeg, and from Winnipeg west the funnel opens out into the wide expanse of the prairies in which so much material development has taken place within recent years, calling for very heavy railway development not only in the matter of main line, but also branch line, construction.

6. This development of the west was foreseen by the citizens of Winnipeg as early as 1882, and at that time the city entered into an agreement with the C.P.R.



offering certain inducements to the company to establish itself in a substantial way in Winnipeg. For instance, in addition to providing a free site for the railway station and the hotel and bonusing the company by giving it \$200,000 worth of debentures of the city, it exempted the company for all time from taxation in respect of any of its property within the city. The company on its part agreed to establish and maintain in the city of Winnipeg its principal workshop and also to maintain its live stock yards within the city of Winnipeg.

7. When the controversy between the Dominion Government and the government of the province was threatening, the citizens of Winnipeg and the city were the chief instigators of the movement for railway connection between Winnipeg and the railway systems to the south. This was because the C.P.R. was at that time not offering the farmers of Manitoba a rate on their products which would enable them to compete with the farmers of the United States immediately to the south of the border; and as the controversy developed the citizens of Winnipeg identified themselves most strongly with the movement for the extra railway development within the province by connecting Winnipeg with the railway systems of the United States so as to create competition with the C.P.R.

8. This controversy and the developments following immediately thereupon marked Winnipeg as a competitive point; and although developments and conditions have changed since that time, the evidence is that Winnipeg still maintains its position as a competitive point having a very important bearing upon the railway



service and freight rates in the prairies and certain portions of British Columbia, which it is hoped this Royal Commission will keep in mind in its investigation and deliberations and when making its findings and recommendations.

9. To-day there are three railway companies operating into Winnipeg from the United States of America west of the Great Lakes, two of them operating under the Dominion Railway Commission and one under a charter of the province of Manitoba but representing capital of the United States. The three of them are connected up with systems in the United States of America, owned and operated under the same managements as those which manage and operate them in Manitoba.

10. The Manitoba Company is the Midland Railway Company which has never expanded beyond the boundaries of the province. The possibility of its lines being projected beyond Winnipeg in a northerly direction to or towards Port Churchill on the Hudson Bay has been very commonly discussed, and the citizens of Winnipeg have regarded it as a useful means of realizing the ideal of a direct railway line from the city of Winnipeg to Port Churchill on the Hudson Bay.

11. For many years after the C.P.R. had established its system from the east through Winnipeg to the Pacific coast, and when connections running south had connected up Winnipeg with the railway systems of the United States of America, Winnipeg was recognized to be the chief distributing centre west of the Great Lakes, with the result that its railway yards and workshops assumed enormous



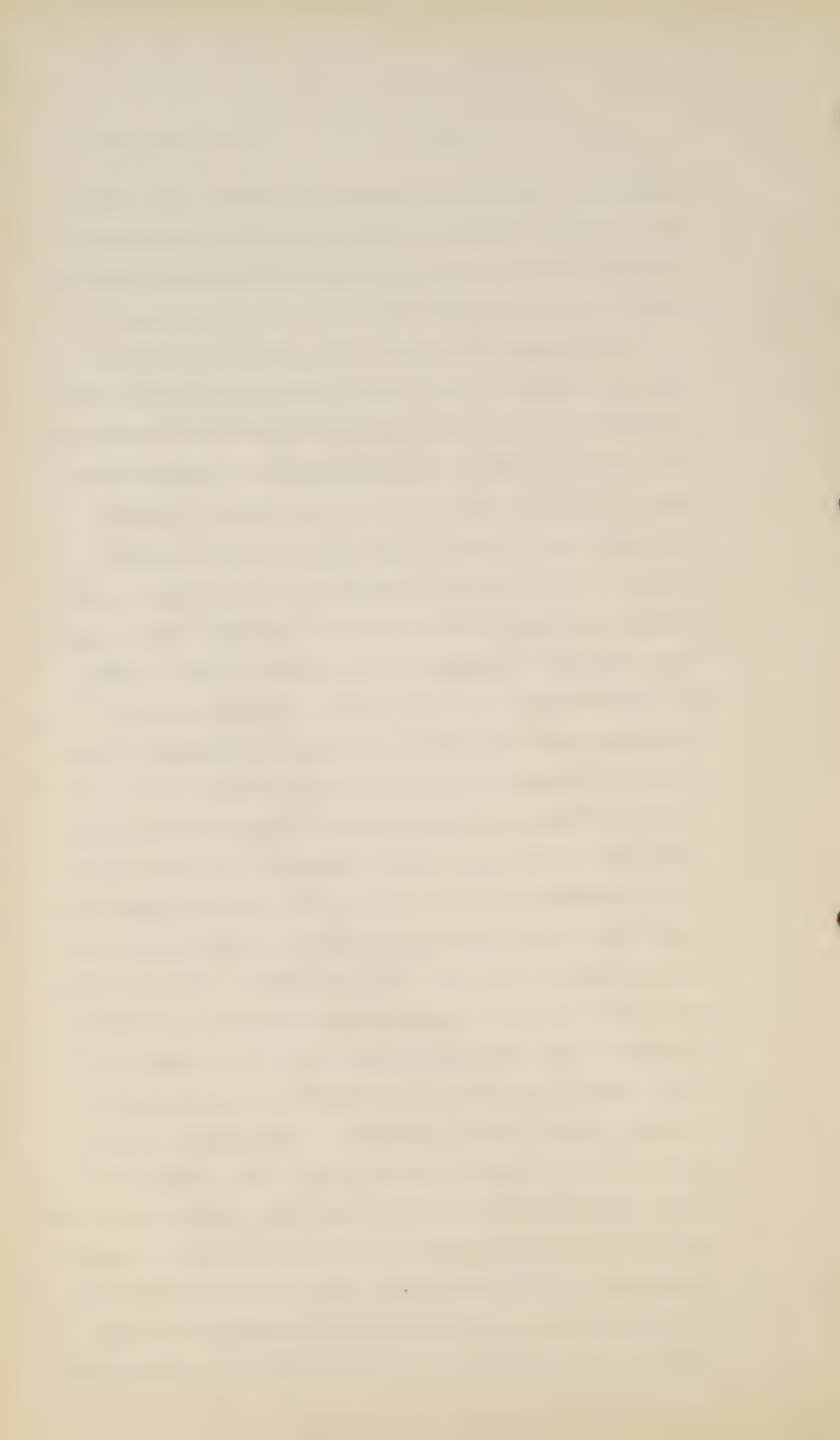


proportions and for the purposes of handling the grain trade certain territory within the city of Winnipeg has been used for the storage of cars kept available for the "rush" during the period when the grain is moving.

12. During this period also, Winnipeg developed as a very important live stock centre to which the live stock from all the prairies moved and to which purchasers from Toronto, Montreal and Chicago came to deal in the trade. Its strategic position was a great benefit, therefore, to the live stock raisers of the prairies as well as the live stock purchasers of the three large centres mentioned, with the result that the C.P.R. yards were considered inadequate for the live stock business of the district. The two Canadian railway systems therefore combined, and as a separate corporation established the Union Stockyards in St. Boniface.

13. The construction of these several railway systems into Winnipeg has created demands within the city limits for protective measures in the form of subways and other facilities, imposing upon the railway systems the usual capital expenditure and maintenance costs, and this is likely to be accentuated if developments actually undertaken and partially carried out be continued to their logical conclusion. In addition thereto, the railway systems, for the purpose of accommodating the heavy seasonal traffic resulting from the movement of grain, have established large yards in a municipality adjacent to Winnipeg -- that is to say the town of Transcona, involving a considerable amount of capital outlay, all rendered necessary by the rapid development of the prairies, the congestion in Winnipeg due to its geograph-





ical position, and the volume of traffic, both freight and passenger, going through Winnipeg from the east, west, south and within recent times to a limited extent, the north.

14. The provision made for the handling of this traffic was justified in view of the rate at which the prairies had developed and the prospects of the same ratio of development being maintained, and the fact that all the traffic to and from the west was bound to pass through Winnipeg. This, however, was materially altered by the construction of the Panama Canal, enabling water-borne traffic to compete successfully with the railways from points in eastern Canada to points in British Columbia, and also as far east from British Columbia as Calgary in the province of Alberta.

15. There still remained, however, the development of the prairie points of Manitoba, Saskatchewan and a portion of Alberta, and the resulting traffic passing to and from these points, all of which goes through Winnipeg where it is reorganized before proceeding to its destination.

16. The railway construction -- main and branch lines -- therefore has continued in the prairie sections of the country notwithstanding the opening of the Panama canal, and the necessary capital expenditure has been undertaken; and as the agricultural development has been maintained, as was foreshadowed, this provision of railway facilities has up to now appeared to be reasonable and justified. Indeed, up to 1929 there were still demands for further undertakings and complaints that the facilities fell far short of the needs



of the country.

17. It must be borne in mind that short crops and low prices have been very important factors in limiting the incoming and outgoing freight traffic passing through Winnipeg to and from the prairies, and rendering the railway facilities (perhaps for the time being) excessive. If, however, what might be regarded as normal development and normal price conditions should recur, it might be found that the railway facilities have not been and are not superfluous, except perhaps in view of the motor bus and truck competition which might be presently taken into consideration.

18. The advent of the water competition resulting from the opening of the Panama canal has forced upon the railway companies the need for meeting this competition, and for that purpose they have in consequence provided high class freight and passenger service across the continent from east to west and from west to east. On certain commodities a special rate is given from manufacturing centres in eastern Canada direct to Vancouver at a far lower rate than is given to any intermediate points, by which these commodities can be taken across the continent to Vancouver and back to points in the prairies cheaper than the same commodities can be taken from the same manufacturing centres in eastern Canada to those same points in the prairies. Similarly, there are certain commodity rates that will enable certain classes of lumber, for instance, to be taken from British Columbia points -- Vancouver, for instance -- to eastern points, to meet the competition of not alone water-borne lumber from British Columbia, but of cer-



tain kinds of lumber from certain points in the United States.

19. This railway service, although expressed in terms of freight rates, really involves quality of service, and in each case the rate which the railways give to meet the competition of the water traffic is actually a higher rate than the rate by water, but the speed and other qualities of the service make up for the difference and provide for the railway the business which justifies the competition. This, of course, has involved a considerable outlay, and when the traffic was available -- that is to say, when the spending power of the community provided the traffic, was justified; and it has resulted in the intermediate points getting a far higher class railway service than they otherwise would have obtained or would have been justified under different circumstances. This is an advantage of which the country should not be lightly deprived.

20. In the development of Canada, not only its railway industry, but every other industry has felt the influence of its proximity to the United States in a very potent manner, and the competition of the United States in every one of the main industries of Canada is an important factor.

21. Winnipeg, owing to its proximity to the international border and its central position, has been one of the centres around which this influence has been most keenly felt, and at which its effect from a transportation point of view is most definitely marked.

22. In the years 1926 and 1927 a general freight rates investigation was held throughout Canada, and





evidence was taken from all sections of the country. It was then disclosed that such commodities as fruit from Ontario required a special rate to Winnipeg so as to meet the competition of the fruit grown in Washington and other western points in the United States of America which is marketed at points like St. Paul and Minneapolis in the United States and finds its way into Winnipeg in competition with the Canadian grown fruit. Similarly, fruit from the Okanagan Valley in British Columbia enjoyed, and to enable the industry to exist needed to be given, a special rate to Winnipeg to compete with the fruit from the American centres. Canned goods from British Columbia points also enjoyed and needed a special rate to Winnipeg so as to meet the competition of the American canned goods coming to Winnipeg. The American and Canadian goods referred to are all distributed from Winnipeg to certain prairie points as a result of these rates, cheaper than they could be delivered to those same points from their points of origin at the normal rates.

23. This competitive movement centering around Winnipeg also called for special service and special equipment, and this, so as to maintain the development which was taking and has taken place, has been justified as the results have shown up to the last year or two.

24. The province of Alberta in competing in its coal with coal shipped in from the United States through Duluth to Winnipeg, has also enjoyed special rates so as to meet the competition in Winnipeg with the American product. The province of Saskatchewan also



has sought and now enjoys special competitive rates for its coal.

25. This service into and through Winnipeg has been developed to a fine point owing to Winnipeg's strategic competitive situation. On the other hand the commodities from the United States of America which have sought the prairie market have been brought in through Winnipeg because Winnipeg happens to be vis-a-vis with St. Paul and Minneapolis, towards which cities the railway systems in the United States of America have converged in seeking a home market for these different American commodities, and this same consideration must be taken into account in dealing with the future of the railway systems in this part of Canada.

26. The advent of the Hudson's Bay Railway was the signal for a great deal of railway construction to be projected and undertaken, to connect with or lead to that railway, but mostly, however, from the province of Saskatchewan. That railway and Fort Churchill have not yet reached the stage when an opinion can be expressed as to whether any construction in that direction can be justified, but it is obvious that if the full benefit of that undertaking is to accrue to the citizens of Canada, due advantage must be taken of the prospects of the traffic which it is likely to draw and the route which that traffic will pursue.

27. When the completion of this railway was under discussion, the points urged in favour of it by those who had studied the situation were both national and international, the international aspect being that it will provide facilities for such communities of the United



States of America as those of North and South Dakota, Minnesota, Wisconsin, Montana, the greater part of Wyoming, Nebraska, and Iowa, to get the benefit of a shorter route for their outgoing products and incoming commodities than has existed in the past, and thereby provide a great highway of international commerce between Canada and the United States of America.

28. Data supplied to successive governments of Canada from time to time, and on the strength of which it is assumed action was taken, show that one of the dominating factors in causing the construction of this railway has been the fact that the population of the eight American states contiguous to the Canadian boundary which would be served by this railway numbers about thirteen millions and that the wealth of these states is about forty-six billions of dollars.

29. A few years ago a conference consisting of representatives from eighteen central states of the United States of America was held at St. Paul, Minnesota, for the purpose of discussing ways and means of procuring relief from the economic situation largely created by the opening of the Panama Canal, which gave all the advantages to seaport as against the central states. One of these eighteen states the eight states above mentioned were then regarded as competitive territory wherein the Hudson's Bay line could be expected to draw a large proportion of the trade, and this trade was expected to go through the city of Winnipeg as it was pointed out that the route to Port Churchill from Winnipeg would be much shorter than from either Regina, Moose Jaw or Saskatoon in the province of Saskatchewan.





30. At present the route pursued from Winnipeg is a circuitous and tortuous route, zig-zagging far out of the direct line, skirting the western boundary of the province and then proceeding in a northeasterly direction towards the seaport. On the other hand, a direct route from Winnipeg would reduce the distance to about two-thirds of the present distance and make it far less than the shortest distance from any of the above points in Saskatchewan.

31. There are at present two lines of railway from the city of Winnipeg in a northerly direction for a portion of the distance towards the Hudson's Bay Railway, on the western side of Lake Winnipeg, and it may be that (these two lines being one of the many duplications, perhaps unnecessary, to be found throughout the railway system of the country) one of the lines would serve the purpose of a direct route from Winnipeg until possibly a more direct route could be undertaken, perhaps by extending a shorter line now existing on the east side.

32. As indicated, a study of the railway systems of the United States of America connecting with the railways in western Canada shows that the most advantageous route for any traffic from any of the points in the territory south of the international boundary mentioned above would be through Emerson north to Winnipeg, then through Winnipeg to connect with the Hudson's Bay Railway, and thence on to Port Churchill. The only other point of entrance is at Portal, this route being far to the west of a direct line to Port Churchill, necessitating a zig-zag route, very lengthy and expensive. The





traffic originating either east or west of Portal would necessarily travel in a very tortuous and expensive route as compared with the direct route north through Winnipeg after travelling either east or west as the case may be, to connect with the northerly and southerly route to and through Winnipeg.

33. A direct line, therefore, from Winnipeg to the Hudson's Bay or to connect with the existing Hudson's Bay Railway in Manitoba, would attract far more traffic from points south of the international boundary than a line following the present course or connecting with any new extension through the province of Saskatchewan, and would be a great advantage in the matter of international trade between Canada and the United States as well as between Europe and the United States passing through Canada.

34. No definite policy as to what should be done towards connecting Winnipeg with a direct line to Port Churchill can be strenuously urged until more experience has been gained in the navigation of the sea route from Europe and in the use of the port, but the present time is an opportune one for studying all the potentialities and keeping in mind the advisability of not too materially disturbing existing facilities.

35. It is well understood that owing to the competition from motor transports which the steam railways are experiencing and the fact that the motor truck and bus are able to render a service which it is impossible to obtain from a system confined to its own roadbed along a rigid and defined route, the question of curtailment of service or reduction of system for the purpose



of reducing expenses may justly be taken under consideration, but nevertheless, in view of the service which it is necessary for the different communities in Canada to receive from the railways to enable them to meet the competition of the United States of America in the different industries on both sides of the international boundary, it would appear that curtailment or discontinuance should be considered, if at all, only as applicable to the branch line operations of the systems, and then only in such cases where a service by motor vehicle if and when substituted would be equal to that provided by the railways to enable the Canadian industries to maintain the competition.

All of which is respectfully submitted.

THE CHAIRMAN: Thank you, Mr. Preudhomme. We will now hear from Mr. Gilliat and Mr. Hunt on behalf of the Winnipeg Board of Trade.

MR. T. A. HUNT, K.C.: Mr. Chairman, I will just ask Mr. Gilliat to present the suggestions for the Winnipeg Board of Trade. They are very brief, and are in line with the telegram received from the Commission.

MR. E. C. GILLIAT: The Commission was kind enough to suggest that the Winnipeg Board of Trade might make certain representations, with particular reference to motor competition with the railroads; consequently our submission is on that point. I have a short memorandum here, which with your permission I will read.

The Winnipeg Board of Trade, representing the diverse and representative interests it does, can only give the merest outline of its views on this question, the time being



so limited. On this basis it respectfully submits the following for your consideration.

From the public point of view the transportation problem is essentially one of moving persons or goods from one point to another.

The public is vitally interested, by reason of financial commitments, in existing transportation agencies, but in the final analysis this is secondary to development and maintenance of the most satisfactory method of transportation available from time to time.

Various important factors enter into the definition of wheat is "the most satisfactory method of transportation", but it is not necessary to go into this in detail beyond pointing out the public will undoubtedly patronize the service which best suits its needs.

At the present time it is clearly apparent:

Motor transport is developing an increasing volume of business, chiefly at the expense of the railways.

Railways are essential, having regard to the nature of commodities produced and consumed in western Canada.

The aeroplane is likely to modify the present status of both railway and motor transport in the future

As already stated the public is primarily interested in transportation as such, but in comparing the three methods of moving persons or commodities referred to, the following points should be noted:

Railways have been required to spend immense sums to ensure:

Safety to the public.

Regularity and efficiency of service.

Responsibility in case of accident to persons or commodities.





Permanency of service.

Reserve of plant and equipment to handle peak loads at seasonal intervals.

Efficiency and courtesy of personnel.

In addition to which a governing commission with wide powers of jurisdiction has authority to regulate rates and enforce its rulings not only in regard to the rate structure and other details of operation, but may also compel the railways to incur large expenditures for the construction of subways, etc.

Aeroplane transportation is at present subject to little in the way of official regulations other than rigid demands for safety.

Motor transport, as compared to railways, is at the present time in Manitoba subject to very little in the way of regulations, and means for enforcement of such regulations as do exist are not adequate.

It is suggested the public's interest in safe, efficient, regular, permanent and economical transportation requires that motor transport be placed under one definite control, which would impose and enforce such suitable regulations and rates as will ensure adequate service to the public.

THE CHAIRMAN: May I ask, Mr. Gilliat, whether you mean one single control for the whole of the Dominion?

MR. GILLIAT: Well, one definite control, sir. In considering this the point was brought out that it might be federal control, and that probably would be preferable if it is possible.

THE CHAIRMAN: You are not committing yourself exclusively to that?

MR. GILLIAT: No -- one definite control, whether it is federal, or whether it is provincial, working on a uniform set of regulations between the provinces. Our idea was to keep away from the controversy of provincial



rights. The memorandum continues:

In determining what might be regarded as adequate regulations and rates, consideration should be given to such matters as the following:

The present public investment in railroad properties.

The effect of the financial condition of the railways on the general credit standing of the country.

Standards of wages and working conditions for both motor and railway services.

The investment of respective provinces in public highways.

The interests of property owners in communities now located on existing railway lines.

The convenience and safety of the public interested in using the public highways for personal travel.

In considering this whole question it does not necessarily follow that present practices of the railroads should be regarded as static, and that regulations and rates should be enforced on motor transport of such a nature as to enable railroad service, as at present organized, to successfully compete with it.

On the contrary it is suggested the solution probably lies in tightening up the present regulations and rates under which motor transport operates, and making it possible for the railroads, voluntarily or otherwise, to so modify their system of operation as to be more mobile and thus better able to compete.

To accomplish the latter it will be necessary, in addition to effecting all possible economies and elimination of duplicate services, to examine into and consider the need to modify relations embodied in agreements between the railways and all sections of their personnel in order



Mr. Preudhomme  
Mr. Haigh

to enable the railways to adjust their affairs to present conditions.

All of which is respectfully submitted by the Winnipeg Board of Trade.

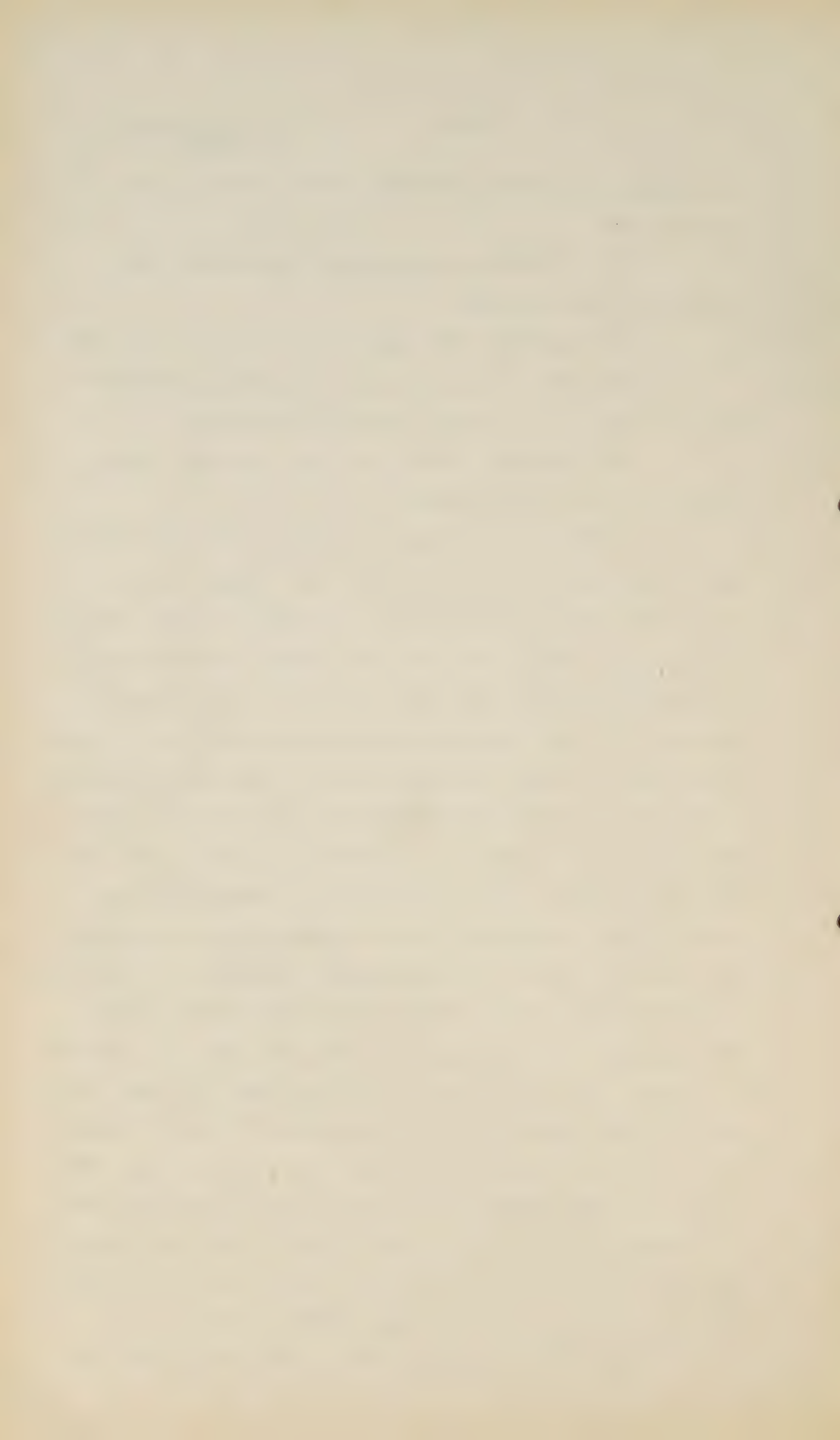
THE CHAIRMAN: Mr. Hunt, have you anything to add?

MR. HUNT: Not unless there are some questions to be asked, by way of enlarging upon the memorandum.

THE CHAIRMAN: We will now hear from Mr. Haigh, mayor of the town of Transcona.

MAYOR W. HAIGH (Transcona Town Council and Board of Trade): Mr. Chairman and members of the Commission, on behalf of the town of Transcona and the Board of Trade, we wish to present our case to you for your careful consideration. The town of Transcona is situated about six miles east of Winnipeg. It has a population of approximately six thousand, all of whom are more or less employees of the Canadian National Railways. At Transcona the Government have the finest shops in Canada. Those shops have not only been built for the maintenance of rolling stock but are equipped for the making of new locomotives and of car equipment. A considerable amount of money has been already expended on the railways in the Transcona shops. The company also own some eight hundred acres of land around the Transcona shops, of which at the present time only about two hundred acres are used. They have at their disposal some six hundred acres for the expansion of yards or shops, as the case may be; and if this Commission is considering a consolidation of the shops or yards, or anything of that kind, we would like to urge you to look into the information which you will find in this report, because we believe it will be very helpful to you.

As I have already stated, we have the finest shops





Mr. Haigh  
Mr. Noble

there, not only for the maintenance of the rolling stock but for building new stock if required; we have light and power, and we have the water supply, which, I might say, is cheaper than any around the Winnipeg district. Without taking too much of your time, we would like you to consider all these phases of the shops, expansion of the shops and also the yards. There has been some talk of moving these yards away, and we believe it will be of vital importance to look into this matter before such a step is taken. As I have already stated, all the people living in the town are dependent upon the railways. There is also a very large number of workmen who travel from Winnipeg to St. Boniface, Vital, West Kildonan and St. James; a train of some sixteen coaches leaves Winnipeg every day to take the workmen out there in the morning and bring them back in the evening.

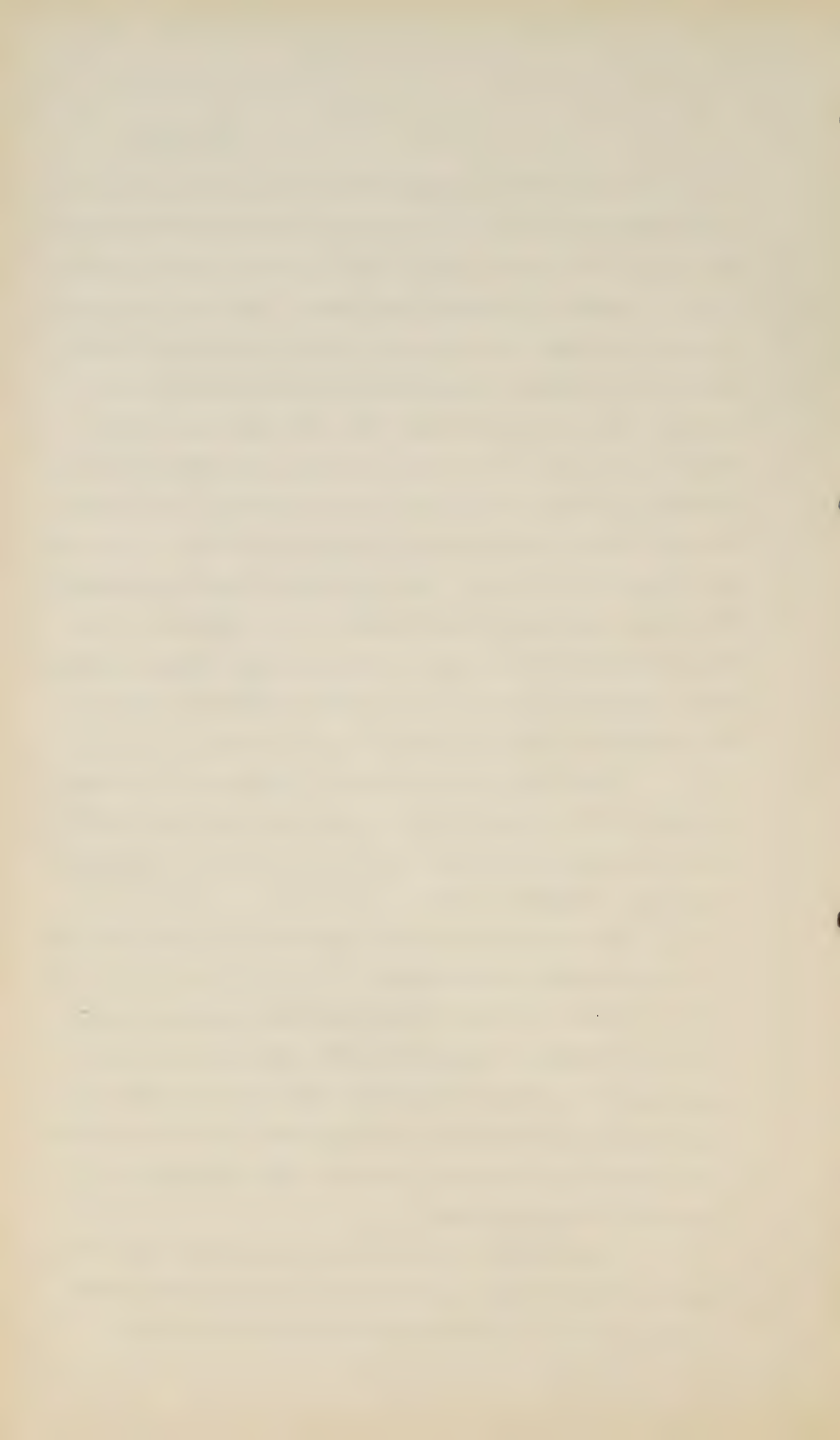
With these few remarks, Mr. Chairman, I am going to hand in this report, and we would urge you to go into it very carefully; we believe there is in it much information that will be useful to you.

THE CHAIRMAN: We will now hear from Mr. Noble, of the Truck and Bus Association.

MR. W. M. NOBLE (Manitoba Truck and Bus Association and Suburban Transit Company): Mr. Chairman and gentlemen of the Royal Commission, the Manitoba Truck and Bus Owners' Association is an organization of truck and bus owners operating as common carriers and as passenger bus operators in the province.

Let me make it clear that the Manitoba Truck and Bus Owners Association and individual operators of public service vehicles in the province of Manitoba, hold no





brief against the railroads. They believe in them and maintain that the prosperity of the railroads is essential to the Dominion.

If the railroads cannot fully serve the public because of restrictive regulation, then they should be relieved.

But the truck and bus operators cannot agree that the public's use of the motor vehicle has crippled the railroads or that the railroads should be allowed to increase the cost to the consumer simply to enable the railroads to go on as they have in the past.

The railroads have no more economic right to all or any traffic than had the canals and stage coaches in other days, which opposed the construction of railways on the grounds that they would take traffic already being carried on the canals and highways.

We believe that the trend of modern civilization is towards automotive transportation and that instead of restricting the progress of civilization by restricting the operation of automotive transportation, the Government should assist automotive transportation so long as such assistance is not inconsistent with good government, and so long as injury and loss is not occasioned to other interests working towards the same end -- prosperity of the country.

We subscribe also to the theory that economically, wasteful rivalries which marked the past, must be avoided, because, in the long run, the public must pay.

The decision as to what service is to be rendered will be made by the public, by public patronage, not by railroad executives, not by unions of railroad employees, not by truck and bus associations, not by governments or

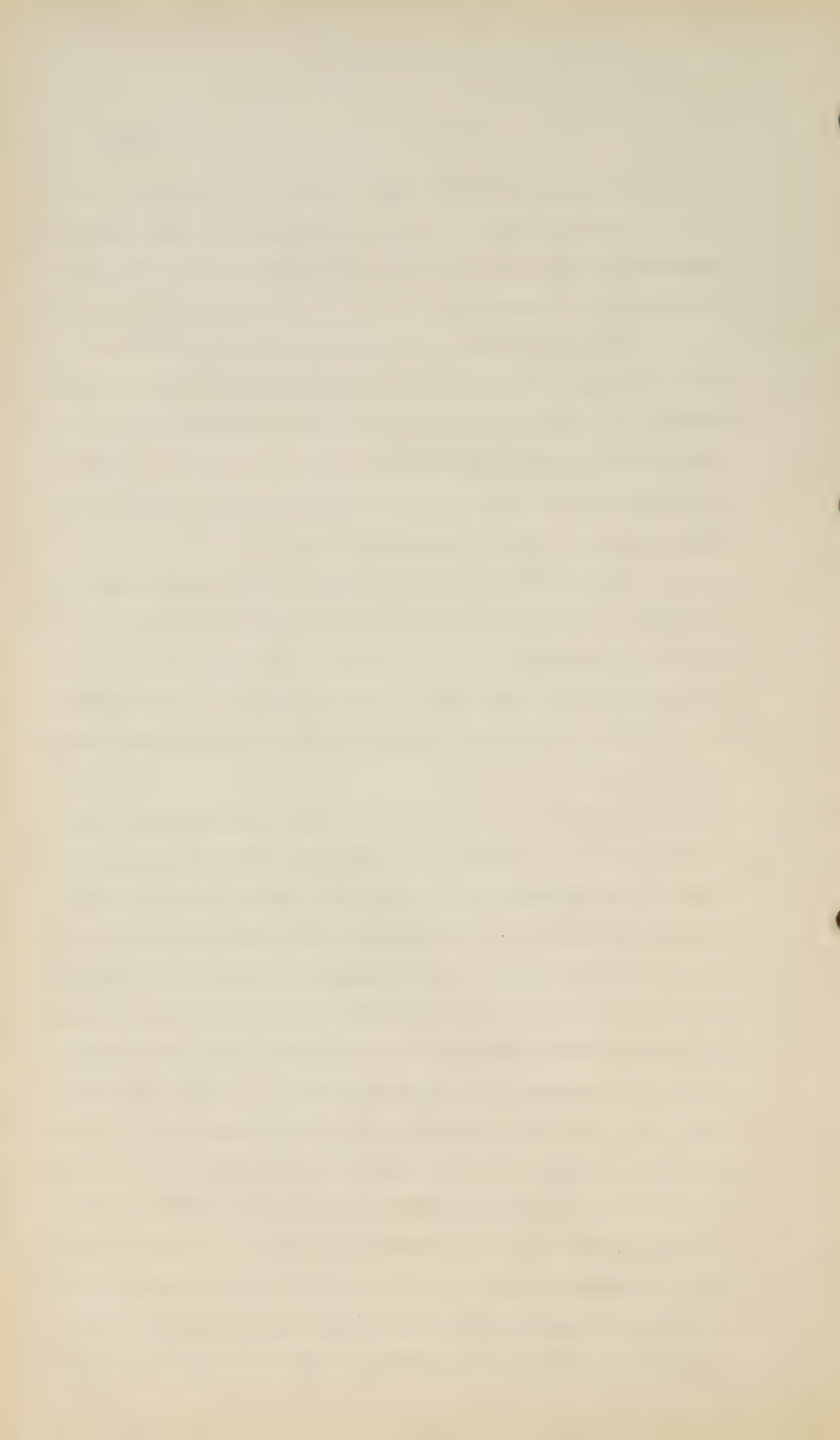


royal commissions, but as I have stated by the public, and by the patronage which the public will give to that system of transportation which meets with their approval in the matter of service and economy.

The public pays for the railroads in the form of rates, freight and passenger, just as it is paying for highways in the form of taxes, and the fact that the public patronize both railway transportation and automotive transportation on the highway, is evidence that the public wants and needs both forms of transportation.

The difficulty seems to be in arriving at that coordination of railroad transportation and automotive transportation which will give the public what they want, and at a price which is reasonable, having regard to the investment of the railroads and those interested in highway transportation.

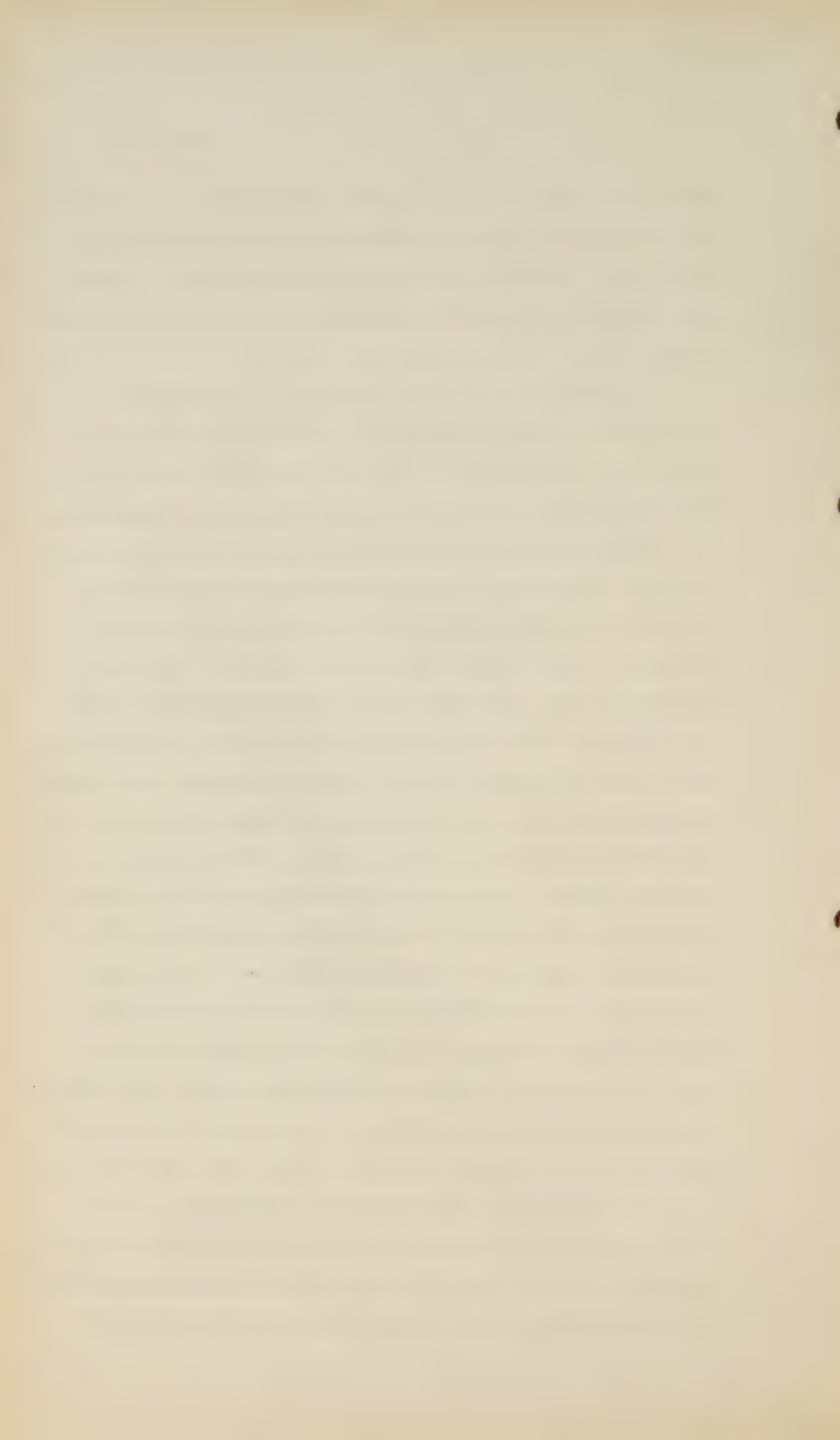
Allow me to interject here the statement that the railroads are not barred from the use of the highways and highway transportation is as open to them as it is to the private individual. The history of highway transportation in the United States is that slowly but surely the railroads have come to realize the fact that they must enter the field of highway transportation if they are to keep up the high standard of service advertised by them. I think you will agree with me that automotive highway transportation is here to stay, and that all that remains to be done is to regulate such highway transportation, but such regulation must be guided by the highest principles of fairness and equity, so that no unjust burdens are placed upon those engaged therein, and that no vested interests are protected, and the interests of the public safeguarded. There should be no unjust



taxation or regulation of tariffs or conditions of operation which would make it impossible for the operator to carry on. Conditions of highways and locality of operation should be taken into consideration when making regulations.

Here I would particularly mention the fact that conditions in Manitoba and shall I say Saskatchewan and Alberta, are very widely different from conditions which your Commission will meet in Ontario and Quebec particularly. Our population in the west is widely scattered, our villages and farms are much farther apart than they are in eastern Canada; in fact our whole territory is vast compared to that in the East. The result is that the railroads do not and cannot attempt to reach every corner of it and give that facility of service which modern times and the modern education of the public demands. Our distances are so vast that our Government cannot hope to build "All weather" highways to every outlying district and must content themselves by building so called arterial highways from which the municipal roads branch off to the various farms and outlying districts. Then too, I would stress the difference in our weather conditions. Western Canada is blest with a beautiful summer, but to some at least it is cursed with an exceedingly long winter, and for that reason the sphere of operations of those engaged in highway transportation, is very much limited.

The highway transportation in Manitoba is only in its infancy, but already, due to the extremely splendid supervision of the Municipal and Public Utility Board, under the chairmanship of Mr. W. R. Cottingham, K.C., we have





gone far towards solving many problems incident to motor vehicle legislation and motor transportation.

To give you some idea of the extent of truck and bus transportation in the province, we can tell you that out of 10,154 licensed trucks in the province, 169 trucks are operated as common carrier trucks, 36 are operated as passenger buses and 39 are operated as cream and milk trucks with special licenses issued by the municipal and public utility board.

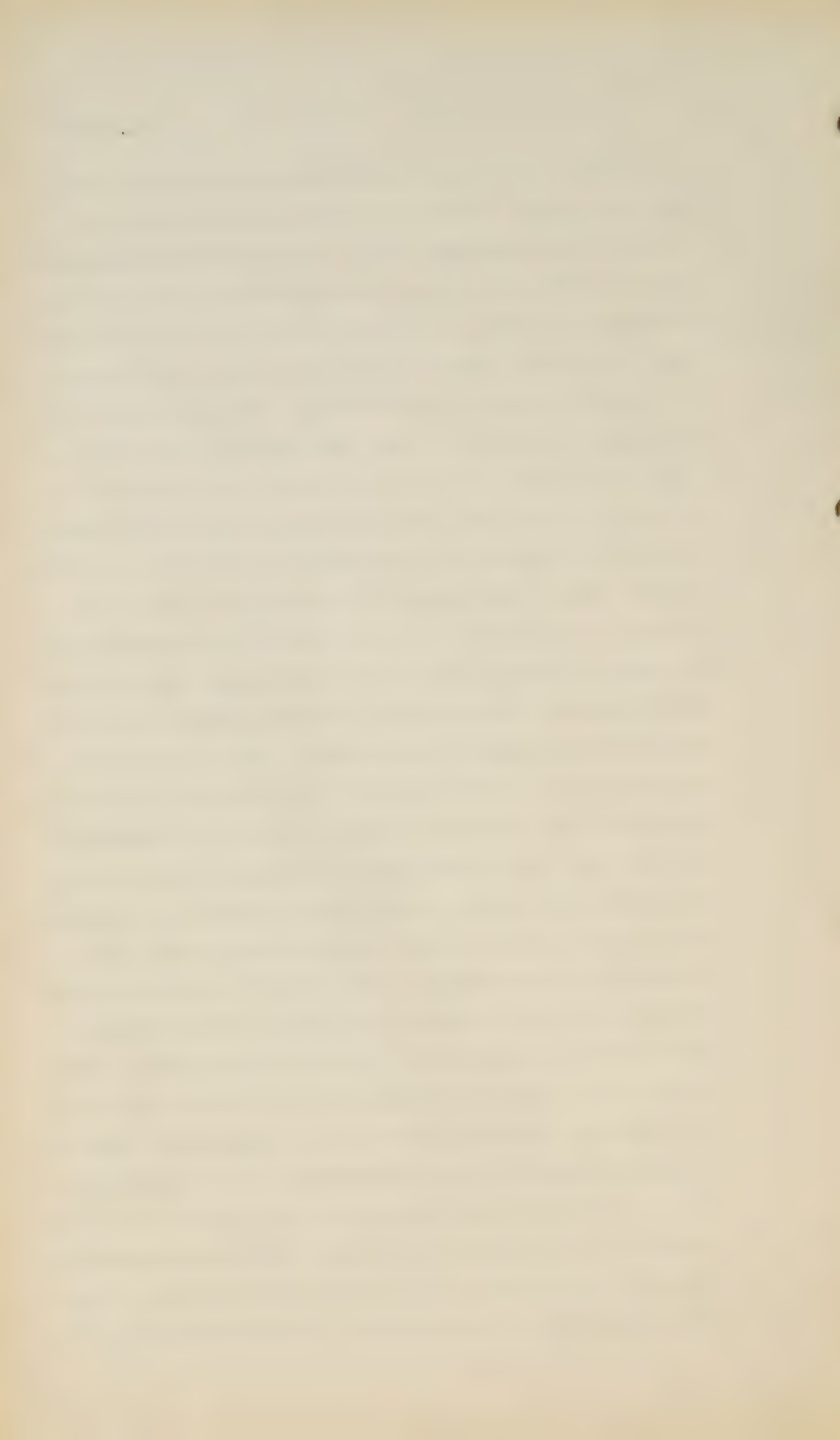
From these common carrier trucks and passenger buses there was collected for the current year the sum of \$10,850 for license fees for common carrier trucks and \$2,096 as license fees for passenger buses. This in addition to government registration fees.

You will see from the above figures that of the licensed trucks in the province of Manitoba, not more than 2 per cent are operated as common carriers, and the information I have from the Municipal and Public Utility Board is that the average capacity of the common carrier truck is not more than one and one-half tons, so that all in all any criticism to the effect that damage to highways is occasioned by heavy laden common carrier trucks is unjust. From the above figures which I have given you there are 36 permits to operate as passenger buses and these are operating over twenty different routes ranging from a distance of a few miles to perhaps the greatest hauling distance, Dauphin in the northern part of the province, 211 miles; the average passenger bus route is between 60 and 70 miles. We feel quite sure that were an expression of opinion obtained from rural Manitoba as to whether or not passenger buses should be permitted



to operate even in direct conflict with established railway lines, there would be an overwhelming majority in favour of the passenger buses. To the rural municipality they are a God-send in that in almost every instance the passenger bus leaves its rural terminus early in the morning, arriving in Winnipeg or Brandon as the case may be, considerably before 12 o'clock noon. The departure from Winnipeg is from 5 to 6 p.m. This enables the rural passenger to come to the city, transact his business and get home the same day, without having to go to the expense of providing himself with accommodation whilst in the city. Without unduly criticising the railroads and their time-tables, it would appear that time tables are arranged not to suit the public, the public's convenience and the public's economy, but to suit the railroad employees and the railroad's diversified connections. What I really want to convince you of is this, that the rural bus satisfies a long felt want especially in the province of Manitoba and the fact that it is receiving the patronage of the public even during the winter months speaks well for the passenger bus service and for the operators and those behind the passenger bus organization. The buses are under personal supervision of the Municipal and Public Utility Board. Every care and precaution is taken by the operators of the buses and the public are protected by the requirements of the Municipal and Public Utility Board against any loss or claim for damage by reason of accident to the passengers.

The passenger bus reaches many points that are not touched by the railroads and gives a daily bus service where railroads would give only an intermittent service. Moreover, many farmers who would have to drive miles to a rail-



road station to get transportation to the city, can now drive but a short distance out to the main highway and arrange to get on a bus at any place along the established route. This is a God-send to the farmers, especially during the busy season of the year when almost every available horse and vehicle is engaged in farming operations. I do not think it is necessary for me here to lay stress upon the advantages of highway freight transport. Highway freight transport is in some respects competitive with, but not comparable to, rail transportation. It renders a flexible and personal, or individual, transportation service -- wholesale house to merchant, merchant to the consumer -- anywhere and everywhere; in fact express service at freight rates. This is a type of service which the railroads are not equipped to render and cannot furnish. We believe that development of highway transport generates new business for the railroads and takes away from the railroads less than carload shipments, which railroads have always contended in the past to be unprofitable business. Highway transport quickens the whole system of distribution, cutting inventory costs as they do so, and gives the ultimate profit to the consumer, the public, besides in countless ways adding to the comfort and convenience of modern life.

We believe we have, if not the best, then equal to the best motor vehicle legislation in the Dominion, if not in America, but notwithstanding this fact, the licensed common carriers or public service vehicle operators and the licensed passenger bus operators are continually having inroads made upon their authorized business by what has become known as "gypsy" trucks and buses; by that is meant a great number of trucks and buses are operating as carriers



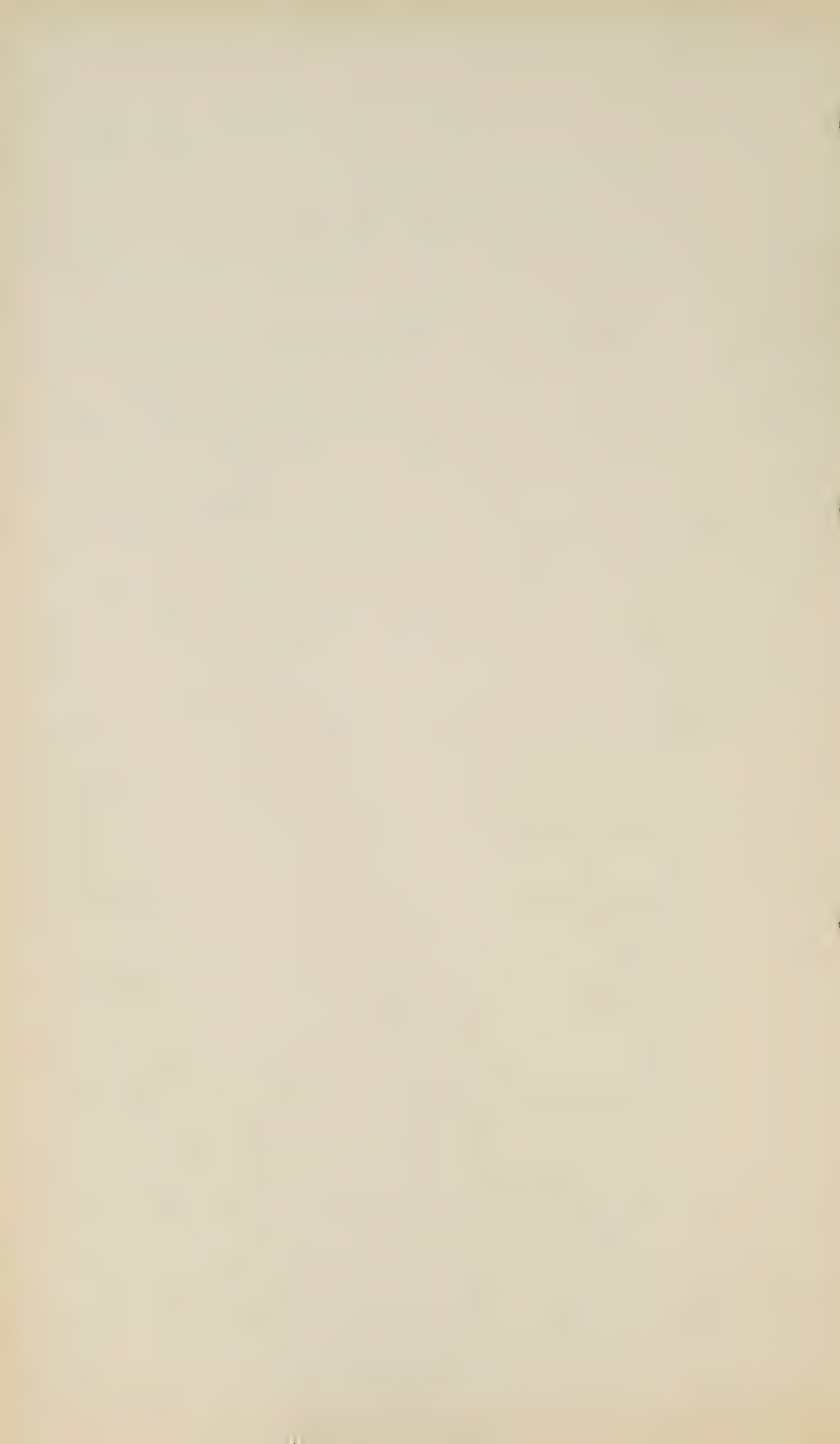


without having paid the required license fee, and what we need more than anything else is regulation and supervision and sufficient "teeth" put in our motor vehicle legislation to curb this "gypsy" element.

It may be an unjust accusation, and we are not prepared to pass any opinion upon the truth of it, but there is persistent rumor to the effect that the private member of our provincial legislature to some extent interferes with the operation of the Act in so far as the granting of permits is concerned. It has been brought to the attention of our Association and its individual members on several occasions that truck owners in rural municipalities have at various times approached their local members of the legislature insisting that they obtain permits for a local resident to operate a public service vehicle over an organized route already perhaps overcrowded with public service vehicles and in several instances it is reported this pressure has been sufficient to result in an additional permit being granted where it was not needed. This brings us to one conclusion at least, that any supervision of transportation should be independent of and entirely separate from politics and legislatures.

We could go on at great length extolling the virtues and benefits of automotive highway transportation but we feel quite sure that you, Mr. Chairman, and the members of this Commission, are quite alive to most of the salient facts and our sole purpose in appearing before you to-day is to express our view that some regulation is necessary, but whatever regulations are formulated, attention must be given to the fact, in the words of Mr. Thos. F. Woodlock, a former member of the interstate commerce commission of the





United States, that "the public is entitled to any and all forms of transportation which can justify themselves on grounds of efficiency and economy. It is not required to support any form which cannot justify itself in this way. To the extent that any existing form of transportation may prove to be either wholly or in part, uneconomical, inefficient or unnecessary, it is the misfortune of those who have embarked their capital therein and not the fault of either the public or those who provide more economical and efficient means of rendering the service."

The first test of motor transportation is the question of whether it can be justified on grounds of efficiency and economy. If it can, then the public is entitled to its use and is not obligated to support any alternative form of transportation unless it desires to do so.

Motor transport or highway transportation should not be strangled or throttled by regulations and here Mr. Woodlock says:

"Regulations of rates, charges, and practices of public service utilities is required only when those utilities are supplied by monopolistic or semi-monopolistic organizations with exclusive or semi-exclusive rights of occupancy of the field. To the extent that a field occupied by certain organizations is open to competition at the hands of a new agency, the true policy is to relax the regulation of the original occupier so as to enable it to meet the competition of the newcomer, -- and not to attempt by regulation to suppress or hamper that new competition, so long as it is reasonably economical and efficient. The public is entitled to the benefits flowing from such competition, but it must be fair



competition.

"'Regulation' as such is not a good thing in itself, and is justifiable only under the principle of choosing the 'lesser evil'. It should extend no further than is absolutely necessary for protection of public interest. Regulatory bodies are fertile breeding grounds for bureaucracy, than which there are few more evil things in a 'democracy' such as this country. Where powers to regulate are granted they should be most clearly defined and rigorously limited."

The question of what regulation there should be of the motor vehicle must be determined equally, not upon the desires of any one group to obtain control, but rather upon the paramount test of whether the public is receiving in full measure, the service which it desires. Only as any form of transportation meets these public issues, can it survive.

In conclusion we wish to say that the owners and operators of highway transport are in favour of cooperation and coordination rather than restriction and unjust regulation and discrimination by way of excessive license fees and discriminatory freight and passenger rates. We believe that if the railroads would keep pace with the modern trend of civilization and forget the Golden Age of the past, and enter the field of competition fairly and equitably with those interested in highway transport, that neither they nor those interested in highway transport will suffer; that there is a fair profit for all and the public, who use both systems, may decide for themselves which system they wish to employ. After all it is the public or the consumer that pays and it is the public that will in the



long run determine which system of transport is to survive.

All of which, Mr. Chairman and gentlemen, is respectfully submitted by the Manitoba Truck and Bus Owners Association and the passenger bus operators in the province and on behalf of individual public service vehicle operators in the province of Manitoba.

COMMISSIONER LOREE: Are the bus companies on a dividend paying basis?

MR. NOBLE: No sir, they are an organization of private individuals.

COMMISSIONER LOREE: Making due allowance for the depreciation of their vehicles, and so forth, are they profitable, do you think?

MR. NOBLE: I would say so.

COMMISSIONER LOREE: How about the truck association?

MR. NOBLE: The truck is on the same basis; they are able to carry on with a reasonable profit.

COMMISSIONER LOREE: And declare dividends?

MR. NOBLE: And declare dividends.

THE CHAIRMAN: Mr. Nursall.

MR. WILLIAM NURSALL (One Big Union, Transcona Unit): Mr. Chairman and members of the Commission, on behalf of the Transcona Unit of the One Big Union, and more especially on behalf of eight men, members of that unit, who up to recently had been employed by the Canadian National Railways in the foundry at Transcona but have now been laid off owing to shortage of work, we would suggest to the Railway Commission that the two large railway systems could effectively economize if they would utilize the plant





they have and which is now inoperative or only operated to a small extent.

We refer especially to the foundries; the Canadian National Railway's foundry at Transcona, and the Canadian Pacific Railway foundries at Ogden and Weston. While these foundries are not being operated to their full extent large quantities of castings in case iron, steel, brass and bronze are being purchased by the railways from outside firms.

The Canadian National Railway foundry at Transcona is equipped with a battery of four coke-fired crucible furnaces, and the other necessary apparatus for producing brass and bronze castings, but these stand idle and have never been put into operation since they were installed at the time the Transcona foundry was built. Brass and bronze castings are purchased from the North Western Brass Company in large quantities.

The Transcona foundry employees have repeatedly asked that they be given a chance to demonstrate that they can produce better and cheaper castings than are now being obtained.

In the same plant are two large cupolas for melting cast iron. Both of these have had to be bricked down to much less than their normal capacity on account of there not being sufficient work to keep them operated to their full extent.

At the same time the Canadian National Railways are purchasing 15 tons of brake shoes per week from the Dominion Wheel and Foundry Company, St. Boniface, and other castings from the Vulcan Iron Works, Winnipeg, and



the Manitoba Steel Foundries at Selkirk.

The foreman of the foundry at Transcona is on record as wanting to make the work now denied to that foundry, and has expressed the opinion that these castings can be made much cheaper in the railway shops.

This opinion has been confirmed in every case where the railway foundry has been given a chance to compete with outside firms.

The foundry employees have asked through the cooperative committee in the plant to have this work placed in their hands, but have met with strong opposition from certain officials.

None of the three foundries mentioned are operating up to even twenty-five per cent of their capacity, and have not been doing so for a number of years.

It is the general opinion of railway mechanics that if the lists of shareholders in the companies receiving this railway work could be scrutinized it would provide a solution to the question: "Why does the railway plant stand idle when so much work is given to outside firms?"

We request the Railway Commission to make an investigation into this matter.

THE CHAIRMAN: Thank you, Mr. Nursall. Mr. Clancy?

MR. JOHN CLANCY: Mr. Chairman and members of the Railway Commission, I want to say at the outset that the memorandum I have to present to the Commission is much in line with the last one presented, although I am representing a number of workers from coast to coast who are employed on these railroads. We present this material to the Commission in the earnest hope that it will bring about differ-



ent relations in the shops in which these men work, and possible provide more employment. With your permission, sir, I will read this memorandum:

On behalf of the Winnipeg Central Labour Council of the One Big Union we desire to place before this Commission a matter which will, in our opinion, help to bring about economies in the operation of the railroads.

At the present time the Canadian Pacific Railway has two foundries in western Canada, one at Calgary and one at Winnipeg, while the Canadian National Railways have one foundry at Transcona.

These foundries are fully equipped and capable of handling all the requirements of the roads, yet are only being operated to a very limited extent, while at the same time large quantities of castings in cast iron, steel, brass and bronze are being purchased by the railroads from outside contract firms.

We feel this is a matter which should receive the serious attention of this Commission, especially the situation at Transcona, because the C.N.R. foundry at Transcona is equipped with a battery of four coke-fired crucible furnaces and the other necessary equipment for producing brass and bronze castings; yet this equipment has stood idle ever since it was installed, while large quantities of castings are purchased from an outside firm -- the North Western Brass Company.

In spite of the repeated requests of the Transcona employees that they be given an opportunity to demonstrate that they can produce better and cheaper castings, nothing has been done.

In this same foundry at Transcona are two large



Mr. Clancy  
Mr. Pritchard

found in a scrutiny of the shareholders of the various contract firms which are doing the work to-day while the railroads' own plants stand practically idle.

We therefore hope the Commission will make a thorough investigation into this matter.

I will leave this with you, Mr. Chairman, in the hope that it will assist you in your investigation.

MR. WILLIAM C. PRITCHARD: Mr. Chairman and members of the Commission, you have an important task before you in considering matters of railway transportation. Motor vehicles cannot be depended upon to meet all the needs of modern transportation; you can put twenty or thirty families on a railway car but you cannot do it with a truck. Now, I have spent much time at Churchill and I know something of that north country and its possibilities. You can buy timber in that country of a size that you cannot get anywhere else the same distance from Winnipeg. I am here simply to suggest to you the desirability of building two hundred miles of railway -- these are engineers' figures -- from Gypsumville to the south corner of the Flin Flon mine. It is a feasible proposition, it would make a great saving, and as I say, the figures are based on engineers' estimates. I have simply come here because this is my native land and I want to see it prosper.

THE SECRETARY: There are submissions in writing from the Western Canada Fuel Association; from Mr. E. J. Reynolds, of Winnipeg -- a study of grain transportation, and from Mr. W. H. Sharpe, of 500 Kensington Building, Winnipeg, on certain proposals as to coordination of services. These will be filed with the Commission.





A further submission has just now been filed by Mr. A. R. Ivey, being a memorandum from the Retail Merchants Association, Manitoba Branch, of which Mr. Ivey is Secretary.

MR. JOHN QUEEN, M.P.P.: Mr. Chairman and members of the Commission, I just want to make one or two observations. One cannot consider the dilemma the railways are in without at the same time giving some consideration to what has brought them to that position. In other words, you have to give some consideration to the dilemma that the people of Canada are in. We are faced with this position of less business on the railroads, less trade being done, because of want of purchasing power on the part of the people generally -- goods sufficient; people with their needs unsatisfied and unable to satisfy them because of the fact that wages are an ever-declining factor in our present economy. So that when we take that into consideration we ought to ask the railway companies what they are trying to do to help themselves. In face of that want of purchasing power we find the railroad employees confronted to-day with a ten per cent reduction in wages; in other words the very thing we are suffering from is going to be made more acute. It will mean a further restriction of purchasing power, and that will mean less business and less revenue for the railway companies.

There is another feature that I want you to pay some attention to -- my remarks are somewhat rambling; I had not intended to speak when I came up this morning. There was a time when the railway companies in this country were prosperous. They were making huge dividends. Those were



not returned to the people of Canada, but a lot of melon-slicing went on in those days -- stock was handed out, presents of stock given away, something that the railway companies could pay a dividend on in the years to come, and they have not made their rate of dividend appear too high. And now, when a period of reduced revenues faces them, instead of squeezing the water out of their stock the first thing they do is to reduce the wages of the men employed there; and they are still attempting to pay dividends on capital that never was invested in these corporations. That is something that I think should receive your serious consideration -- the amount of stock that was handed away in those prosperous years, on which extra dividends could be paid. At the present time we are still trying to pay that, with the result that the dilemma in which the people of Canada find themselves through restricted purchasing power is made even more serious.

I want to say further that I hope you gentlemen will not be guided so much by maintaining dividend-paying institutions as by consideration for the economic welfare of the people of Canada. I thank you.

THE CHAIRMAN: We shall be glad to hear any other gentlemen who have representations or statements to make with regard to the matters before us for consideration.

If there is nothing further the Commission will adjourn.

The Commission adjourned at 11.30 a.m.



ROYAL COMMISSION ON RAILWAYS AND TRANSPORTATION

The Royal Commission appointed to inquire into the whole problem of transportation in Canada, particularly in relation to railways, shipping and communication facilities therein, having regard to present conditions and the probable future developments of the country, met at the Parliament Buildings, Winnipeg, on Saturday, December 19, 1931.

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PRESENT:

RIGHT HON. LYMAN POORE DUFF, P.C.,	Chairman
BEAUDRY LEMAN, Esq.,	)
LEONOR FRESNEL EOREE, Esq.,	) Commissioners
WALTER CHARLES MURRAY, Esq.,	)
JOHN CLARENCE WEBSTER, Esq.,	)

Arthur Moxon, Esq., K.C., Secretary

George W. Yates, Esq., Assistant Secretary

Executive Council

Hon. John Bracken, Premier,

Hon. A. Prefontaine, Minister of Agriculture and  
Immigration; Railway Commissioner,

Hon. R. A. Hoey, Minister of Education,

Hon. W. J. Major, Attorney General,

Hon. E. W. Montgomery, Minister of Health and Public  
Welfare,

Hon. B. G. McKenzie, Minister of Mines and Natural  
Resources,

Mr. W. R. Cottingham, K.C., Chairman, Municipal and  
Public Utility Board.

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Parliament Buildings, Winnipeg,  
Saturday, December 19, 1931.

MORNING SESSION

The Commission met at 10.00 a.m.

HON. JOHN BRACKEN(Premier): Mr. Chairman, Mr. Major, our Attorney General, has prepared a memorandum of the government's views, and I will ask him to present it to the Commission.

THE CHAIRMAN: Yes, Mr. Attorney General.

HON. W. J. MAJOR(Attorney General): Mr. Chairman and members of the Commission, we have prepared a memorandum dealing with some twenty-five or twenty-six points, with certain comments attached. After I have read the memorandum discussion might follow on the points raised. I may add that Mr. W.R.Cottingham, Chairman of the Municipal and Public Utility Board, will be here within the next half hour to discuss with you any points arising on the question of motor truck traffic.

THE CHAIRMAN: Yes.

HON. MR. MAJOR: The government of Manitoba recognizes the present difficulties of the Canadian railways, and desires to cooperate in meeting the situation created by the period of depression.

2. It is assumed that the Commission does not intend to consider any question of rates. If this Question is to be gone into the government desires ample notice and opportunity to present its views, and to answer all representations by other interests as to rates affecting Manitoba.

THE CHAIRMAN: We are not a rate making body,



Mr. Attorney General. On the other hand suggestions have been made that the proper remedy is an increase of rates, and on that broad question we shall be very glad to hear anything you have to say.

HON. MR. MAJOR: If there is any need for presentation of a memorandum regarding rates, I take it that we shall be given an opportunity of doing so at a later date.

THE CHAIRMAN: Yes.

HON. MR. MAJOR: There appears to be four phases of the problem under consideration by the Commission:

A- The immediate problem of the economies necessary during the present depression;

B- The general principle of amalgamation and the involved issue of public ownership;

C- The special problems relating to the Canadian National and Canadian Pacific railways; and,

D- The problem of the competition of motor transport.

Present Economies:

4. The government of Manitoba is of opinion that the present situation should be dealt with as a problem by itself and necessary economies effected, but it does not believe that any permanent policy should be based upon present conditions.

While the depression through which this country, in common with almost all the world, is passing at the present time is more wide-spread and in some respects more severe than previous depressions, yet it is in its causes and effects very similar to previous depressions which this and other countries have experienced. During the past 20 years Western Canada has experienced three depressions, 1912-1915, 1920-1923, and the present one. During each of these



depressions there have been many demands for drastic action dictated by a spirit of panic, but as the respective depressions have passed away these demands are forgotten. Western Canada has been built up by the confidence of those who had faith in the country, in spite of many obvious difficulties and disadvantages and in the face of constant attacks from those who had not faith in the country. There are many reasons for believing that within the next year there will be considerable improvement. The government of Manitoba has every confidence in the future of western Canada and therefore believes that public policy should be determined by views of long term interests rather than by those of the immediate period.

5. The measures of economy which should be taken at the present time should be determined upon the same principles as those which must govern the policies of governments and industrial concerns, viz. such reductions in services and expenditures as are necessary to balance budgets, bearing in mind, however, the dangers of the continuing effects of economies and the cumulative effects on the railways and on the country of reduced employment and wages.

6. The injury suffered by all interests from largely reduced railway services and expenditures is so great that they should only be resorted to after all possible reductions in costs and profits have been put into effect.

7. The fact that the C.P.R. has had to reduce its dividends has undoubtedly caused difficulty for some of its shareholders, but the position of the shareholders of that company is much better than that of the great majority of the farmers and business men of Manitoba, most of whom



are being compelled under present conditions to draw upon reserves, if they have any, to meet living expenses, or to go in debt if they have no reserves.

8. It is most regrettable that the government of Canada in its capacity as the owner of the C.N.R. should have to suffer heavy losses on the operation of its property but it does not in that respect differ from many of the strongest and best managed companies in western Canada.

A statement recently published by the Financial Post shows that 102 Canadian companies have passed their dividends during 1931. Of these dividends, 58 were on preference stock, so that the common stock dividends must have been passed previously. In addition, 49 companies reduced their dividends.

9. The railway companies, whether privately or publicly owned, are not entitled to relief from the effects of the present depression at the expense of other sections of the community whose difficulties and losses are already in most cases greater than those of the railways.

The owners of both railways must be prepared to draw upon reserves in times like these. Economies may become very costly in the long run if carried too far. The interests of the country and of the railways are so intertwined that the railways must have regard for the effects of their policies in reference to employment and wages as affecting the country, and the reaction of adverse conditions upon themselves. The government of Canada and the Canadian Pacific Railways are the two strongest institutions, financially, in the country, and must assume corresponding responsibilities.

10. The farmers of western Canada who are the





principal source of the wealth of these provinces have suffered losses far greater than those of any of the interests affected by the losses in connection with the railways, and are now carrying on at prices below the cost of production.

The Monthly Bulletin of Agricultural Statistics for March, 1931, published by the Dominion Bureau of Statistics, estimates the gross annual agricultural revenue of Canada, of Manitoba and of the three prairie provinces combined, as follows:

	Canada	Manitoba	Prairie Provinces
1924	1,494,000,000	163,000,000	654,000,000
1925	1,709,000,000	127,000,000	771,000,000
1926	1,714,000,000	146,000,000	765,000,000
1927	1,825,000,000	123,000,000	864,000,000
1928	1,806,000,000	155,000,000	843,000,000
1929	1,631,000,000	119,000,000	642,000,000
1930	1,240,000,000	88,000,000	414,000,000

The same report estimates that the net agricultural revenue of Canada from field crops, after proper deductions, was \$820,000,000 in 1930, compared with \$1,044,000,000 in 1929.

The same bulletin gives a comparative statement of agricultural prices from 1909 to 1930, taking 1913 as a basis equalling 100, giving figures for Canada as a whole and for each of the provinces:

	Canada	Manitoba	Prairie Provinces
1924	146.9	177.8	158.4
1925	146.6	146.5	148.8
1926	143.6	143.5	141.0
1927	138.6	153.7	140.4
1928	121.5	136.0	118.5
1929	150.7	160.5	151.2
1930	80.8	64.6	59.5

The same bulletin gives tables for the area, yield, quality and value of principal field crops in Canada for the years 1925 to 1930, and also figures for each province. For Manitoba the figures as to price for the most important



crops are as follows:

	Average, 1925-1929	1930	1931
Wheat per bush.	\$1.06	.51	.41
Oats " "	.43	.21	.19
Barley " "	.54	.17	.20
Potatoes per cwt.	1.11	.65	.40
Butter " lb.	.36	.29	.21

11. The business interests of Manitoba suffer from the same causes. Their primary market depends on the buying power of the farmers. Consequently there is not only a very large amount of unemployment but almost every business is so curtailed as to be profitless.

12. The government of Manitoba is, therefore, opposed to such reductions of railway services and employment as will shift the losses now being borne by the railway companies on to other classes which already are bearing greater burdens.

#### General Principles

13. The government of Manitoba is opposed to any form of amalgamation of the railway systems. It is unqualifiedly opposed to any monopoly that is not entirely controlled by the government. In the present circumstances it does not favour a government monopoly of the railways.

The policy of taking over the bankrupt railways by the government of Canada was inaugurated in 1917 under the premiership of Sir Robert Borden. It was continued and developed under his successor, Mr. Meighen. In 1922 the new government under the premiership of Mr. King had occasion to reconsider the whole problem free from the influence of previous commitments. The result was the adoption of the same policy and its further development. The present Prime Minister in his declarations of policy in 1930 was most emphatic in his opposition to amalgamation of



the railways. The policy of ownership and operation of the National railways by the Government independently of and in competition with the Canadian Pacific is therefore endorsed by all political parties and by all the Governments which have been in office since the question arose.

The same problem was considered by the Acworth Commission in 1917. The majority report analyzed at length the conditions of the three chief railways then existing, deprecated the control of the Grand Trunk and Canadian Northern passing entirely into the hands of the Canadian Pacific or the control of all three passing into the hands of the Government, opposed the management of these railways as a whole being vested in any single private corporation, and recommended that the Canadian Northern, Grand Trunk, Grand Trunk Pacific, National Transcontinental and Inter-colonial be transferred to a Dominion railway company.

The same position was endorsed by Mr. E. W. Beatty, President of the Canadian Pacific Railway. Speaking in Toronto on March 13, 1920, Mr. Beatty said that there was room for two great railway organizations in Canada, and declared that "both on national and selfish grounds the success of the Canadian National Railways is desirable from the viewpoint of the Canadian Pacific Railway," and proclaimed the issue as between publicly and privately owned railway systems to be no longer effective or necessary.

14. On the contrary, the Government of Manitoba believes that the best interests of the whole country will be served by the continuance of the present position, with two highly organized and most efficient systems covering every province and actively competing. Any savings that





could be made by amalgamation would be much more than offset by the evils of monopoly, whether Government monopoly or private monopoly.

The country has in recent years enjoyed the most efficient and satisfactory railway service in its history. The competition between the staffs of the two railway systems has improved the service in every way and has raised the standards of business efficiency in the country at large. It has always been recognized that competition involves duplication and waste, but this whole continent has been built up on the belief that the wastes of competitive enterprises were less harmful than the evils of monopoly. Competition has always been considered the life of trade, and the constant competition of two fairly equal railways has undoubtedly promoted the trade and industry of Canada.

The most authoritative proposal for joint control of the railways in Canada was that presented by a committee of the Senate in June, 1925. This committee recommended that the two railway systems should be merged for the purposes of administration and operation, under a board of directors of whom five would be named by the C.P.R., five by the Government and five additional chosen by these ten, the last five to hold office for ten years. It further recommended that the C.P.R. be guaranteed an agreed dividend on its stock and in the event of a surplus after this dividend, a dividend at the same rate to be paid by the Government on a capitalization to be placed on the National Railways from the point of view of earning capacity.

This report received very little support and very much opposition in the country and was never seriously considered by either the government or the parliamentary



opposition at that time.

It is noteworthy that the committee expressly confined its inquiry to "ascertaining from business and railway experts the best means to relieve the country of its heavy annual railway deficits", and also that no record was kept and no information given to the public of the evidence heard by the committee.

One of the most favourable comments on this report was made by Sir Joseph Flavelle in September, 1925, when he said:

"If Parliament were to accept the Senate solution of the railway problem and put it in force, unquestionably there would be an early reduction and ultimate elimination of yearly deficits, and an important decrease in annual capital expenditure. Its penalty would be found in the unavoidable deterioration in quality of service and in the interpretation of public requirements by a monopoly."

15. The losses now being suffered by the Canadian National arise mainly from the operation of uneconomic sections, which are in eastern Canada and British Columbia. This loss can only be avoided by closing up those sections and leaving the adjacent areas without railway service. Amalgamation cannot bring any relief from these losses unless unprofitable and parallel lines are closed. An examination in detail of the lines that would be closed by such a policy will show its impossibility.

An examination of the competing and uneconomic lines shows the following as the most conspicuous ones and the ones which would have to be eliminated if any such policy were adopted; (a) Either the former National Transcontinental line

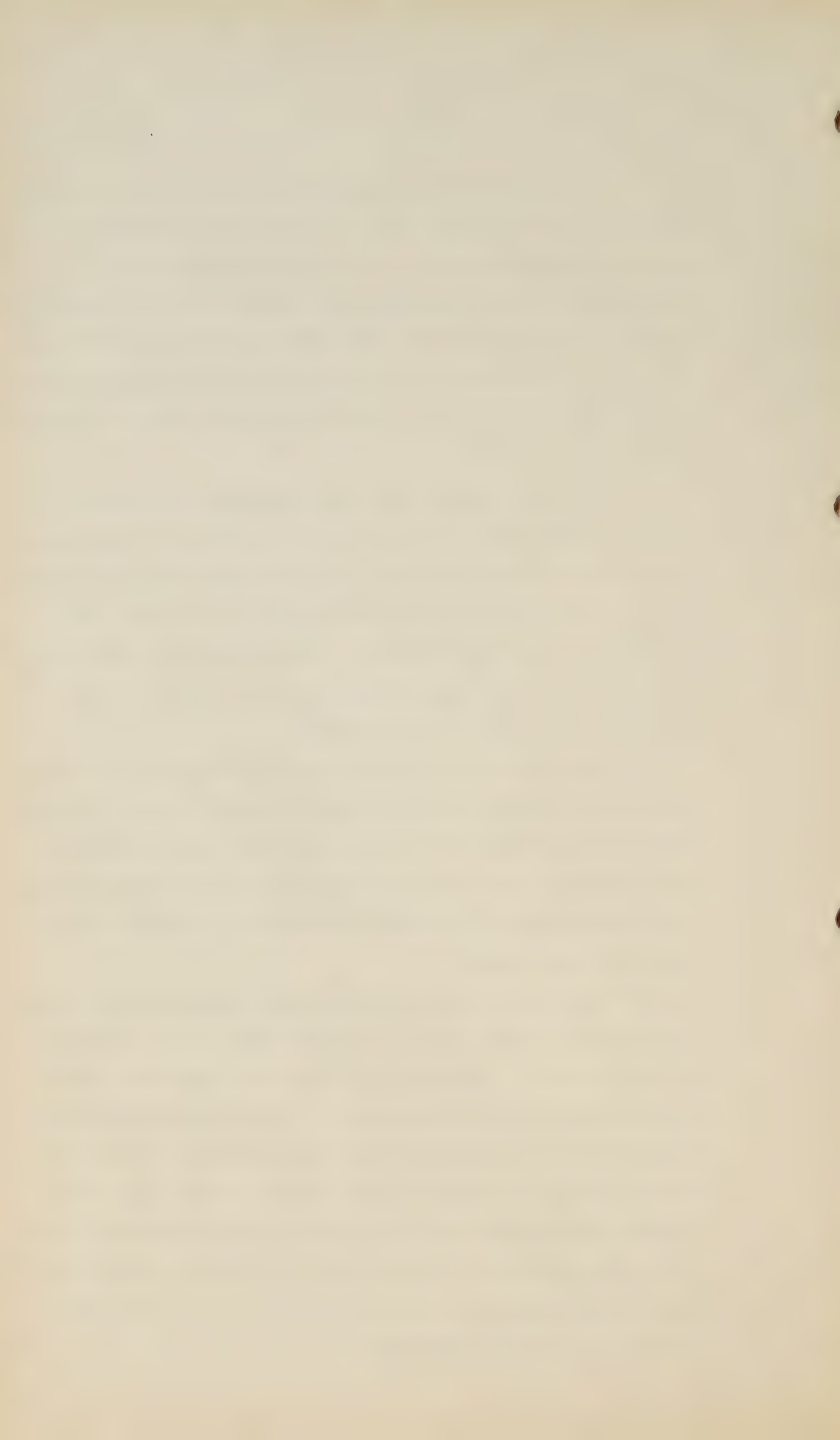


from Superior Junction to Quebec City or the former Canadian Northern line from Port Arthur to Parry Sound; (b) Either the National Transcontinental line or the Intercolonial line from Quebec City to New Brunswick; (c) Either the line from Mount Robson to Vancouver or the line from Mount Robson to Prince Rupert; and, (d) Two of the four lines between Montreal and Ottawa; and (e) One of the two C.P.R. lines between Montreal and Toronto.

It is to be noted that none of these outstanding cases of uneconomic lines are in the province of Manitoba. It is true that Manitoba has a high railway mileage in proportion to population, but this is due to the fact that Winnipeg is a centre from which radiate railway lines in all directions and that some of the lines in Manitoba exist primarily for long distance traffic.

Professor W. T. Jackman, in his "Economics of Transportation", points out that large economies may be effected by the amalgamation of railways that are complementary to each other but that very little economy can be effected by the amalgamation of railways which have been built for purposes of competition.

The heads of the railways have recognized that there are distinct limits to the economies that can be effected by cooperation. Speaking in Toronto in September, 1925, Mr. Beatty warned Canadians not to be deceived by soothing words such as 'cooperation' and 'coordination', which had a very indefinite meaning to most people and were apt to give grounds for expectations not possible of realization. No one appreciated more acutely than the railways themselves the limited extent to which economies could be effected through so called cooperation.





16. None of the proposals now under consideration in the United States for consolidation of the railways contemplates monopoly in any part of the country.

The Transportation Act passed by Congress in 1920 provided for the amalgamation of the railways of the United States into large systems and directed the Interstate Commerce Commission to work out plans to this end. By direction of the Commission, Professor Irving Fisher --

COMMISSIONER LOREE: Professor Ripley of Harvard.

HON. MR. MAJOR: Thanks for the correction. By direction of the Commission, Professor Ripley worked out a plan of consolidation which would have consolidated the 1,600 railways into 21 systems. The Interstate Commerce Commission accepted this report in the main but made further consolidations which reduced the number of systems to 19. Owing to the many difficulties involved, these consolidations have not been carried into effect, but the principal railway companies have recently submitted proposals which are now under consideration for the amalgamation of all the railways between Chicago and St. Louis and the Atlantic into four systems. It is most noteworthy that none of these plans contemplates unification at any point. In every plan provision is made for four or five competing and fairly equal systems and for at least two competing systems in every centre of population. Similarly, the plans for consolidation of the railways between the Mississippi and the Pacific Coast all provide for the maintenance of at least two competing roads in the northern area, two in the central area, and two in the southern area.

17. The zone system in use on the continent and, in part, in England, is quite inapplicable to the conditions in





Canada and could not be operated successfully here.

The zone system is inapplicable to Canada for the reason that any railway must be transcontinental if it is to compete successfully. There is not, as in England and France, any one centre towards which all traffic is directed. Further, the standards of public administration are not as high on this continent nor is there anything like the same concentration of governmental control.

18. The Government of Manitoba, while favourable to the principle of public ownership, does not believe in applying that principle without discrimination. It believes that the best interests of the country at the present time will be served by continuing the operation of the National system as a Government enterprise and of the Canadian Pacific as a private company. In that way the people of Canada will gain the experience in the conduct of business which is necessary before the ultimate operation of all railways by the state can be made successful.

The province of Manitoba has had considerable experience in the operation of publicly owned utilities and in competition between private and public utilities. In the city of Winnipeg and suburbs there is an extensive hydro-electric system owned and operated by the city in active competition with a similar system owned and operated by the Winnipeg Electric Company. The province owns and operates the telephone system. The Government is also rapidly developing a hydro electric distributing system throughout the province. At the same time, the Government has declined to enter into public ownership enterprises where the circumstances did not seem to be favourable.



It has to be remembered that the Canadian National system was not taken up by the Government of Canada because of belief in public ownership but because of necessity forced upon the country by the failure of privately owned companies. The situation was very clearly expressed by Sir Joseph Flavelle in an open letter to the then Prime Minister in August, 1921, in which he reviewed the conditions facing the National Railways and submitted proposals for a financial reorganization. In reference to this point he said:

"As matters now stand, practically all the steam railways in Canada, other than the Canadian Pacific, are in the Canadian National System. Hence, there is the anomaly of 40 per cent of the railways being owned and operated by private capital and 60 per cent owned and operated on behalf of the people of Canada. This distinction in ownership was not planned. It was occasioned through the breakdown of a scheme of railway construction and operation authorized by Parliament and carried out under private ownership. Troubles developed beyond the control of the private corporations, and Parliament, confronted with the necessity of choosing between undesirable alternatives, considered it advisable that the Government should take over the properties which were in default. Hence the Canadian Pacific Railway Company and the country are confronted with the fact, not the theory, of public ownership of railways upon a great scale, and these publicly owned properties must be operated on behalf of the people of Canada."

The supporters of the government policy in Parliament and the country did not during these years say very much about the principles of nationalization, or argue as to



theories of public versus private ownership, or deal at length with the experiences of other countries. They assumed that public opinion in Canada favoured the principle that events were making its application imperative, and that national development would make the experiment in the end a prosperous one for the railways and the people.

It should be remembered that outside of the United States more than half of the railway mileage of the world is state owned. Of a total mileage of 521,813 miles outside of the United States, 291,887 are state owned.

19. It has been clearly demonstrated in the past that the prairie provinces provide the most profitable traffic which the railways receive and that when the West produces a large crop the railways are prosperous, and vice versa. What has caused the present difficulty is the inability of the West to find markets for its products. If this problem is solved there will be no railway problem.

In March, 1922, counsel for the western provinces in the equalized rates case presented evidence showing that during the preceding fifteen years the C.P.R. had earned net on its business in western Canada, \$405,000,000, a sum sufficient to pay all its fixed charges and all its dividends less \$20,000,000.

The profits of the railways are derived largely from the handling of the western grain crop in the last three months of the year. The light traffic in the fall of 1929 as compared with 1928 reduced the net earnings of the C.N.R. by \$17,000,000. During 1926-1928, from 40 to 45 per cent of the net revenues were earned in the last three months of each year and only 25 per cent of operating expenses incurred, but in 1929 owing to the small crop only





30 per cent of the net revenues was earned in the last three months. In 1922 the net revenue from the three months was \$19,000,000 compared with \$14,500,000 in 1921. The traffic density increased 19 per cent, the average length of haul 7 per cent, while the average operating expenses per train mile were cut 13 per cent.

There are about 270,000 farmers in the prairie provinces. In a poor year they produce about 270,000,000 bushels of wheat. In a good year they have produced 540,000,000 bushels of wheat and bushels of other grain having a value of over \$850,000,000. It is evident that even with the present population the West can provide the railways with all the traffic necessary provided public policies are pursued which secure profitable markets for our products.

20. The whole situation will right itself within a few years. Railway construction proceeded too far ahead of traffic and population, but with the growth of Canada there will come an amount of traffic which will make all of the railway lines profitable. Between 1924 and 1929 there was a growth which altered the situation greatly and enabled the Canadian National to pay both operating expenses and interest. A revival of trade will make our railways prosperous again without resort to any radical changes. Without such a revival no measures of reorganization will be of any avail. The cost of carrying these roads during and since the war is a direct consequence of the war and should be treated as an addition to the war debt.

The core of the difficulty in which the railways of Canada now find themselves lies in the fact that the railways were developed in advance of population and before



traffic had or could have developed to an extent necessary to the profitable operation of the railways. The obvious consequence is that until the country has a larger population and larger traffic losses cannot be avoided. The situation was well expressed by Sir Joseph Flavelle in the open letter referred to already:

"The railways in Canada have been developed in advance of the requirements of the country. The remedy cannot be found in now materially reducing the miles of railway operated, although economies in this respect will be made if sound practice prevails. Apart from better operating conditions incident to consolidation of the National lines in one system, the chief remedy will be found only in increased population, and consequent increased tonnage of commodities for movement by the railways, and increased passenger, express and other revenues. Canada must secure this increase through settlers who will occupy the unoccupied lands in the West."

The Acworth Commission stressed the fact that the railway mileage of Canada had far outstripped the growth of the population and the available traffic and that the eight systems involved in the report had received from Government subsidies, from sale of lands, from loans, investments or guarantees, a total of \$968,000,000. A striking illustration of the over building of railways is contained in a statement made in 1916 by Hon. J. A. Calder, then Acting Premier of Saskatchewan:

"During the twenty-two years ending 1905 there was constructed in what is now the province of Saskatchewan 1,552 miles of railway. In just half that time -- 1905 to 1915 -- over 4,550 miles of railway had been



built. When Saskatchewan was created a province in 1905 it possessed one mile of railroad for every 161 inhabitants. To-day there exists one mile of railroad for every 116 people. Viewed from a different angle, the situation is that while the population grew enormously and almost trebled itself, still the railway mileage more than kept pace and increased fourfold in the same length of time. On the average more than one mile of railway has been built each day in Saskatchewan during the eleven years that the Government has been in office, Sundays and holidays included."

In further discussion of this point Sir Joseph Flavelle made the following comment:

"In the interval between the present alarming losses in operation and fixed charges and the ultimate successful operation of the properties, the patience of all concerned will be severely taxed. It should be accepted that the conditions responsible for the present and anticipated unfavourable results cannot be remedied in short order through the administrative genius of a superman. They are inherent, and will, for years, register disappointment and loss. They will yield only to the patient and capable administration that develops power and efficiency, supported by increased tonnage made available through increased population.

"There is no burden which the Canadian people are called upon to bear that should occasion fear. The abundant resources of the country and the character of the people will enable the country to meet every obligation. There will be periods of readjustment when anxiety and concern will be present, but these will always pass.



When the construction of the Canadian Pacific Railway was proposed there were leaders in Parliament who sincerely thought the enterprise was doomed to failure. Within thirty years men whose opinion upon financial matters was considered authoritative predicted the Canadian Pacific would pay no more dividends. We will have an uncomfortable time for years with this publicly owned property, but we need not give way to fear if we retain patience and balance, and afford a publicly owned property, developed before its time but with unlimited credit, an administration operating under conditions reasonably corresponding to those present in successfully operated private properties."

Speaking in Toronto two months later he said:

"No superman can give an organization and no super company can supply an organization that will save the situation for some years to come from important cash losses. As to the railway problem in general, it might be settled in 20 years and a great property realized, but only after some hundreds of millions had been lost. The losses can be met in two ways, by taxation or by earnings. You can have earnings only if you have business and business well done. The only remedy for this situation is more people, greater production, greater tonnage, more passengers."

Mr. E. W. Beatty has again and again expressed the same opinion. Speaking in Montreal on March 20, 1921, Mr. Beatty declared that without immigration the prospects of the National lines, in his opinion, were hopeless, and any legislation which would stem the tide of desirable immi-





gration must inevitably pile up further deficits. It was, he said, an aggressive propaganda of this kind that had built up the C.P.R.

"The gates of Canada should be opened once more, not only to the British, French and American immigrant, but also to the Scandinavian and the more desirable type of continental."

Speaking at Montreal on April 28, 1922, Mr. Beatty said:

"Canada needs immigration, and when I say immigration I mean immigration of capital as well as men . . . . It is probably more necessary now than ever that encouragement to this free flow of capital and men should be given as never before. Canada's burdens are heavy considering our liquid resources and our relatively sparse population. These can be improved, the first by a wholesome and scrupulous regard for honest capital investment, and the second by a careful selection and wise propaganda."

Speaking at Vancouver Mr. Beatty referred to the national debt and the need of utilization of the natural resources to meet the burden of taxation.

"In my opinion this constitutes perhaps the most vital question confronting Canadians to-day. We have huge railway systems which can only be maintained by traffic, and increased traffic can only be secured by agricultural expansion in the West, the proper utilization of our resources in mines and timber, and consequent industrial expansion in the East."

He added that the C.P.R. had itself expended since incorporation a total of \$68,000,000 upon matters touching upon



national colonization and settlement.

Speaking in Toronto on September 9, 1925, Mr. Beatty declared that the only safe and certain cure for the Dominion's railway troubles lay in the country's industrial and agricultural development.

Speaking in Winnipeg in November, 1925, Mr. Beatty discussed the question of immigration and declared that \$50,000,000 a year would not be too much for Canada to spend in peopling the country.

The experience of the last ten years has demonstrated the truth of the above views. Then the population and production of the country advanced, the traffic and earnings of both railway systems advanced likewise, and their financial difficulties were slight. When the country ceased to advance the railways suffered the inevitable consequence. The record of the Canadian National constitutes a striking illustration of this truth. In 1920 the railways now combined in the Canadian National system had a net operating deficit of \$34,500,000 and in 1921 of \$11,800,000. In 1922 this had been transformed into a net operating surplus of \$2,800,000, and in subsequent years this operating surplus grew until it reached \$54,000,000 in 1928. With the stoppage of expansion this operating surplus has disappeared.

The traffic, earnings and profits of the railways have followed closely and been largely determined by the amount of the western grain crop. It is difficult to make exact comparisons, because railway statistics are for calendar years and grain statistics for a year ending July 31st. Further, the proportion of the crop moved before the end of the calendar year varies con-



siderably. But the following figures will show a parallel course of railway revenues and the wheat crop.

In the years 1925 to 1929 the net operating revenues of the Canadian National were \$32,000,000, \$46,000,000, \$41,000,000, \$54,000,000 and \$41,000,000. This may be compared with the wheat crop, which from 1924 to 1929 was 262,000,000 bushels, 395,000,000 bushels, 407,000,000 bushels, 479,000,000 bushels, 566,000,000 and 299,000,000 bushels. The wheat inspected in the western division in the crop year 1924-25 was 214,000,000 bushels, and in the succeeding years 352,000,000, 336,000,000, 397,000,000 and 466,000,000 bushels.

21. The success of the railway systems depends upon the development of the natural resources of Canada, and only by such development will it be possible to make the railways profitable, in view of the premature development of railway services. The Government of Manitoba has every confidence that another period of development will solve the railway problem and that the resources of the country are more than ample for the success of both railway systems.

That the resources of Canada are very far from adequate development may be seen from the following illustration (Canada Year Book, 1931):

The area of occupied farm lands in Canada, according to the census of 1921, was 140,000,000 acres, out of a total available area of 358,000,000 acres. In Manitoba 14,000,000 acres are occupied, out of 24,000,000 available; and in Alberta 29,000,000 acres out of 67,000,000 available.

The installed water power now amounts to 6,125,000





horse power; the power available, at minimum flow, 20,300,000 horse power, at ordinary six months flow 33,600,000 horse power, and at possible flow, 43,000,000 horse power.

The resources in minerals, oil, coal, timber and other natural products, while not capable of an exact measurement, are such as to give every reason for confidence that these resources are also capable of greatly enlarging the wealth and trade of the country and consequently the earning power of the railways.

22. It is essential that the Canadian National system should be kept free from political interference and also that it should be defended from the constant criticism of unfriendly sources actuated by dislike of public ownership or by interested motives. This position was well expressed by Sir Joseph Flavelle in the letter previously quoted:

"It should be remembered that ownership by the public establishes no exemption from conditions inseparable from successful business administration. No great business can survive if it is the constant target of unfavourable comment, and if the management is subject to sustained critical and unfriendly examination. Will Parliament, the press and the public generally afford to the administration of the National Railways support which will permit administrative capacity of high order, or will the inevitable heavy losses for years cause unrest and distrust, or will the errors of judgment associated with all human action be magnified to the humiliation of the management, and will the political disappointment of members of the House of



Commons who cannot have their way in the administration of the property in their respective constituencies or districts create such bitterness in Parliament and the press that men of sound capacity and fine spirit will refuse to serve? . . . . If 'politics' will permit, and Parliament and the press will allow the necessary freedom and give the necessary support, the gravity of the issues should command resourceful leadership. Given such leadership, with sufficient time to work out the problem, a National system which will pay its way will, in due time, emerge. I do not venture an opinion as to what will happen to these great properties if 'politics' will not permit and Parliament and the press will not allow the necessary freedom and will not give the necessary support to the administration of publicly owned railways."

Special Problems of Canadian National and  
Canadian Pacific Railways.

23. The position of the Canadian National is the result of the folly of private capital in the years preceding the war; it is the result of the construction of duplicating and uneconomic lines in pre-war years by private companies, authorized and aided by the then Dominion Governments. The province of Manitoba had no share in these unsound enterprises, and has no responsibility for them, and its people should not be made to assume the losses entailed otherwise than as taxpayers of the Dominion.

The cardinal error was the construction of a third transcontinental system which involved wholly unnecessary lines in Ontario and through the mountains. The



location and expensive character of the National Trans-continental were matters of Dominion policy in the interest of and to the immediate benefit of the eastern provinces.

24. It must always be remembered that the Canadian National took over several railways which had become bankrupt under private management and which had been unsoundly financed and which had never been profitable.

The Grand Trunk Railway Company had always been able to pay its operating expenses and fixed charges out of its earnings up to 1919, but the amount left for the payment of dividends had always been uncertain or irregular. Dividend payments on preference stock had been intermittent, and the amount paid on third preference stock had been very small, while common stockholders had never received any recompense. In 1919 the amount available for interest and dividends was \$11,000,000, out of which the company was able to meet interest on fixed charges but not on the share capital which included the 4 per cent guaranteed stock, first, second and third preference stock, and ordinary stock. In 1920 the company fell short by \$6,560,000 of meeting interest on fixed charges. The total cost of the Grand Trunk Pacific including its branch lines was \$197,129,391, of which amount the public authorities contributed \$127,939,892, or 65 per cent of the entire cost. Of the total capitalization of the Grand Trunk Pacific 88 per cent was in bonds and only 12 per cent in stock. There was consequently a very heavy load of fixed charges amounting to \$8,456,408 per annum, or \$2,855 per mile -- more than three times the fixed charges



of the Canadian Pacific.

The Canadian Northern received from the federal and provincial governments and from land grants a total of \$298,000,000, while the maximum cash cost of the property was found by the Acworth Commission not to exceed \$370,000,000. In addition to the guaranteed bonds there was an outstanding funded debt of \$83,000,000. The outstanding liabilities were in excess of the whole cost of the property.

25. The losses which were sustained in assisting the railways now incorporated in the Canadian National system before they were taken over and the deficits incurred in the period of reconstruction and from the operation of uneconomic sections should not be charged to the railway account. They are the direct and unavoidable consequences of mistakes made before the National system was in existence or are to be considered as enterprises in the development of the country which should be paid for by the country as a whole and not by the users of the railway.

In his proposals for reconstruction of the National system Sir Joseph Flavelle expressly recognized this situation and recommended, inter alia, (a) That the cost of constructing the Intercolonial and Transcontinental railways should be written off at once. (b) That the advances made to the railways before taken over and the deficits which would be inevitable for some years should be met by the issue to the Government of common stock on which no interest would be charged or dividends paid until the Company was in a position to earn profits after payment of interest on fixed charges assumed and on the subsequent





capital expenditures that would be necessary.

26. It was clearly recognized by all parties in 1922, when the present National system was organized, that deficits would have to be expected for many years and that the country would have to choose between such deficits and higher railroad rates.

During 1920 both Mr. Hanna and Mr. Beatty urged increased rates in order to meet the increase in wages paid under the wage awards. The rates had been increased in 1918 and the increases had brought in \$43,000,000 additional revenue to the companies, but this failed to equal the increases in wages, which amounted to \$77,000,000 annually. The position taken by the Government was summed up by the Minister of Railways in Parliament as follows:

"Shall Canadian freight rates be increased generally for the particular purpose of enabling the Canadian National System to meet its operating expenses and fixed charges, or would it be better to go on with the present rates, giving dealers no additional excuse for increasing the cost of living, and trusting to increase in business, the economies it should be possible to effect by coordination, and the return of normal conditions, to gradually reduce these deficits until the day when the revenue will prove sufficient to pay for operation and, later, also to take care of fixed charges? Should this latter suggestion prevail, it would require to be thoroughly understood that the Minister of Railways must come down next year with a deficit, and the next year with a deficit, and so on for a few years until we shall have turned the corner. The railway companies applied to the Commission for an increase in rates, and



and after a prolonged controversy an increase was granted, calculated to be sufficient to keep the C.P.R. at least in a healthy financial condition, with the hope that as a result the other great railway system may be benefitted in a corresponding degree.

27. There should be a settlement of capitalization and charges for which the management of the C.N.R. will be held responsible, based upon the value of the roads when taken over and the capital expenditures made since and upon the responsibility of the Company for all proper railway charges and the responsibility of the Government for all development lines for a limited period.

There will never be any fair basis for consideration of the merits and demerits of the National system until there is a revision of the capitalization on a fair basis. To charge the railway as a company with responsibility for the blunders of pre-war years and for the deficits incurred before the railway company was in existence is grossly unfair and is a constant reflection on the railway management, in the minds of those who are not familiar with the facts. The railway management should be charged with responsibility for all such expenditures and charges as would have been made for the purposes of sound railway policy, but should not be charged with responsibility for the cost of operating railway lines which would never have been built had the system been in existence at the time they were built and been governed by the same considerations as would influence the Canadian Pacific. If the Dominion Government desires for national reasons that uneconomic lines should be continued to be operated, it should make grants equal to the net loss on



these lines.

Canadian Pacific Railway.

28. The shareholders, officers and employees of the Canadian Pacific have enjoyed great and uninterrupted prosperity for twenty-five years. During that time the farmers and business men of Manitoba have experienced three periods of drastic depression and losses, all of which were brought about by causes over which our people had little control. It is therefore only fair that the C.P.R. interests should now accept the losses of the present depression without seeking to shift them in any form on to other shoulders.

29. The Canadian Pacific has been one of the most successful railways in the world and has been and is managed with the highest efficiency. Its immediate difficulties are much less than those of most of the railway systems of the United States. It is quite capable of carrying through this period of depression out of its own resources and without resort to any exceptional measures.

The financial difficulties which both Canadian railways are meeting are shared by nearly all the railroads of the United States. During 1930 nine railways in the United States went into the hands of receivers and in 1931, thirteen, including the Wabash. While these roads are generally smaller roads the records for twenty-two of them show that they are by no means weak roads.

Mileage operated	10,200 miles
Preference stock	\$111,491,592
Common stock	\$125,341,155
	Plus 2,780,221 shares of no par value
Funded debt	\$425,338,329
Gross revenue 1930	\$138,237,514
Operating surplus	\$ 30,694,708
Deficit	\$ 3,039,326





Of companies comparable to the Canadian companies the Chicago Milwaukee & St. Paul and Chicago and North Western show heavy deficits in 1931 and the Great Northern, Northern Pacific, New York Central and Pennsylvania all show earnings in 1931 of less than \$2 per share compared with over \$11 per share in 1929.

The stock market prices at the present time reveal the extent of these losses. While the average price of industrial stocks is still 40 per cent above the lowest point reached in the depression of 1921, the average price of railroad stocks is about 40 per cent below the lowest point of 1921.

#### Motor Transport competition.

30. The Government of Manitoba recognizes the serious losses suffered by the railways from the competition of motor busses and trucks using the public highway. It appreciates the danger to the ability of the railway companies to maintain the services essential to the country if they have to lose profitable business during favourable seasons of the year to such competitors.

31. In considering the question of motor transport competition the following points are worthy of attention.

#### Railway vs Motors

##### A - Points in favour of motors.

1. The motor truck supplies express service at freight rates. Most country stores now carry small stocks because trucks keep them in daily supply.

Milk is delivered to creameries by truck more and more each year, so that Winnipeg creameries have now to extend unloading facilities.

2. The truck furnishes a door-to-door service. This



facilitates movement of farm products to markets.

3. Truck rate structures are simpler and more flexible than rail tariffs.
4. As much as three-fourths of truck transport is privately owned, moving the owner's own goods, making more direct connection between producer and consumer, not only in farm, garden and dairy products, but in movement of manufactured and mercantile goods. For example, nearly all oil deliveries are now made by truck from the centre of supply to consumer.
5. The regulation and control of motor carriers on the highways is constitutionally a matter for the provinces, and such recommendations as may be made by a Dominion Commission can only be carried out by provincial authorities.

B - Points against motors.

1. Trucks use facilities which they do not themselves supply, e.g. roads and terminal facilities.
2. Truck owners do not supply adequate shipping, passenger and warehousing facilities.
3. Trucks are stated to not bear a sufficient share of taxes to pay for the facilities they use.
4. Without the railways the trucks would be unable to meet the transportation demands of the public and unrestricted truck carrying must impair the railways in the performance by them of their transportation obligations.
5. The truck makes no contribution to the village, which comprises the social and economic centre of the primary producers who comprise the basic part



of Canada's population; the railway and its facilities, on the other hand, is the nucleus around which such centres are built.

6. The truck operators are not an organized responsible body, such as are the railway, freight and passenger services, and cannot be relied upon by the public to give like services at all times.
7. Canadian winter conditions make railway service essential, but, per contra, prevent reliable all the year round truck services. The railways cannot operate for seasonal traffic only.

C - General.

1. The problem of motor competition is one to be met primarily by the railways, for the most part in competitive ways, and, in a lesser way, by requests for provincial regulation of motor carriers, and legislation insuring proper regulation and equality of competition, where competition is to be permissible between the motor carriers and the railway.
2. The railways should initiate action:
  - (a) There is no great public demand for regulation of the motor carrier, and the railways themselves have not so demanded. The motor carrier is not essentially a public utility in that so much of his activities are private, and where he acts as a common carrier there is no present prospect of monopoly. Hence the interests to be safeguarded are primarily the railway interest and the provincial interest in the preservation of highways and of the amenities of highway traffic.



- (b) The railways cannot expect that a new type of service can or should be throttled -- public interest will not go so far. It will, rather, expect the railways to do much in a competitive way to meet public traffic demand, e.g. by:
- i - simplification of railway l.c.l. (less than car lot) tariffs.
  - ii - improvement in local rail services, including substitution of light rail units for present heavy steam trains.
  - iii - modernization of railway viewpoint and practices and subordination of the rules of railroad operation to the requirements of the public in the business of transportation.
  - iv - changing railroad method so that more attention can be given to local problems, and solutions to local needs provided.
  - v - in some cases entering the trucking and bus business -- but public opinion would question the development of a railway monopoly of transportation, which might in time extend to include water transportation.
- (c) Some railway costs must be reduced, e.g. reduction in use of private cars, elimination of much pass riding on passenger trains, and of franking privileges, official perquisites, etc.
3. The problem of truck competition with the railroads is fundamentally an economic one. If a territory can support only one type of transportation system it cannot support two, no matter how equal the terms of competition between them. In the long run the people pay, and what may be looked at now as cheaper rates may in the end be regarded as higher taxes, particularly in the case of the C.N.R. From this aspect public authority must be forced at times and in some localities to choose





the type of service -- and then the very extensiveness of the railways' organization and their heavy irremovable capitalization, which superficial public opinion might censure, are the best possible evidence and guarantee of their ability to give permanent and reliable service. In this viewpoint the railways may be regarded as national public utilities which cannot be permitted to suffer serious impairment without consequent national and local loss.

32. The Government of Manitoba is prepared to cooperate with the Dominion and provincial governments in every effort that can be made to provide a remedy for any unfair competition that might exist.

(Page 640 follows)



THE CHAIRMAN: I think, Mr. Prime Minister, you will allow me to say that this extraordinarily thorough review of the whole situation will be of the greatest possible value to us.

The immediate question confronting the Dominion with respect to the Canadian National railways is of course a financial one.

HON. MR. BRACKEN: Yes.

THE CHAIRMAN: The amount which has been provided or is to be provided for the year ending 31st December, exclusive of the deficit on the eastern lines and exclusive also of the deficit on the West Indies steamship service, which is managed by the National railways, and the deficit on the Canadian Government Merchant Marine which is also managed by them, is \$100,000,000.

Now, in view of the general financial situation that is a very large sum. For the financial year ending 31st March last there was, as you know, a deficit of about \$70,000,000. I think there is good reason to believe -- I do not know that this should be made public in any way -- that for the financial year ending 31st March next the actual deficit will run to \$170,000,000.

HON. MR. BRACKEN: Yes.

THE CHAIRMAN: The \$70,000,000 last year was provided, as you know, by the issue of long term bonds, which were negotiated in New York. Of the total two thousand two hundred million dollars odd which constitutes the public debt of Canada, one thousand million would mature before the end of 1934. Six hundred million dollars of that has been converted into long term obligations. There remains four hundred million, which will have to be met, two hundred million dollars, I think, in 1932, and the other two hundred



million dollars in 1933 or 1934. So that situation is a very serious one from the financial point of view.

I am not quite sure whether it was the last financial year of the Dominion or the last railway year, but during the year ending either 31st December last or 31st March last \$120,000,000 was provided by floating railway bonds guaranteed by the Dominion government, which are entirely outside of the figures I have mentioned. This year the Dominion has already provided something like \$50,000,000 in the same way; that is to say, the bonds are railway bonds but are guaranteed by the Dominion.

Of course, this serious situation must be met in some way. The obvious suggestion is that economies should be made by the railways. But I rather gather that economies in the direction of discontinuance of services is something that you would not look on with any kind of satisfaction.

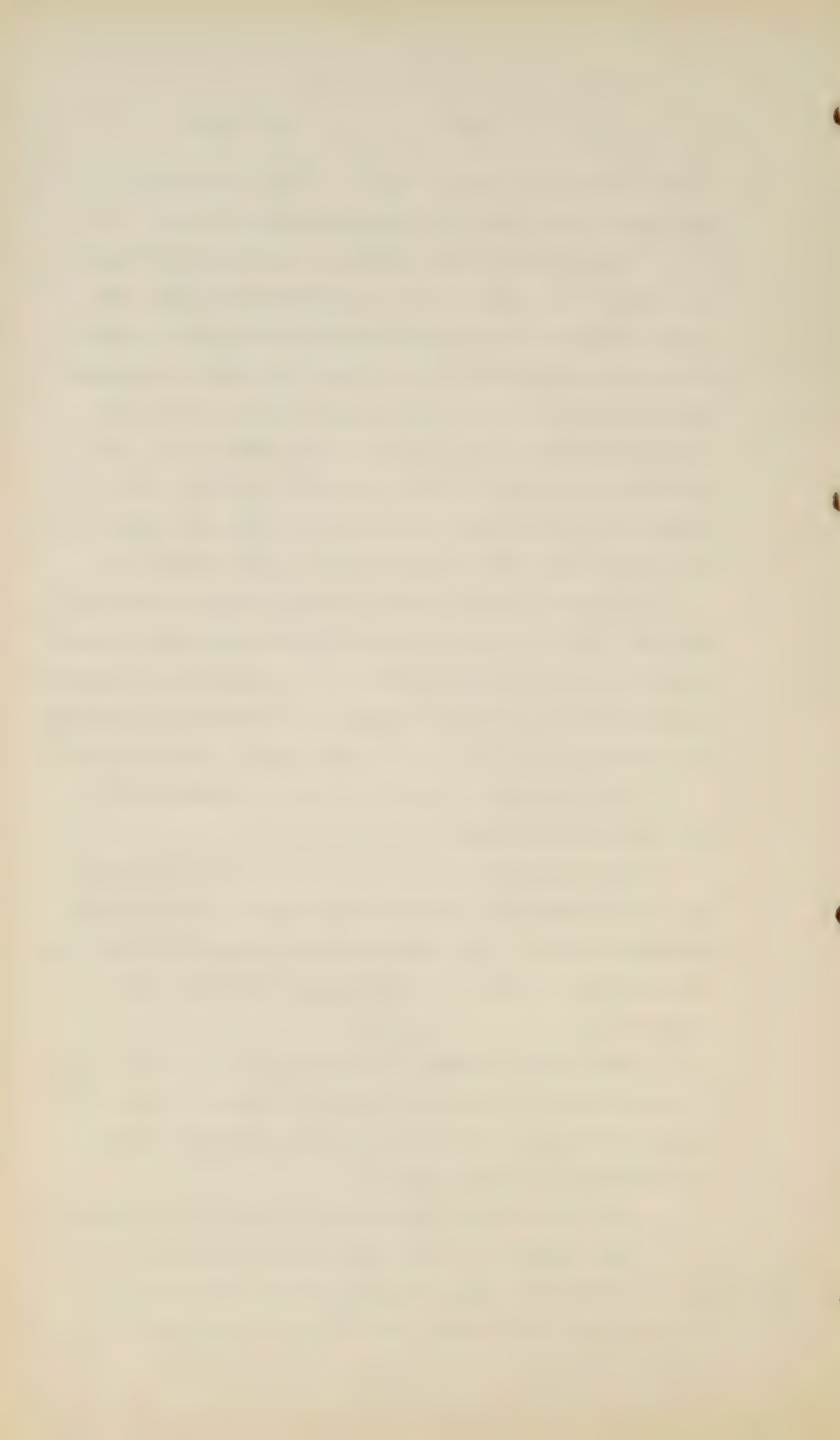
HON. MR. MAJOR: There has to be elimination of all unnecessary costs.

THE CHAIRMAN: Of course, there has been a great deal of extravagance in the construction of hotels and in other directions. I do not know, Mr. Loree, that there has been very much evidence of extravagance in day-to-day expenditure.

COMMISSIONER LOREE: I think not, sir. As near as I can determine the railroads appear to have followed the known practices of economies and have very much reduced their expenses by those means.

HON. MR. BRACKEN: \$170,000,000 is a lot of money.

THE CHAIRMAN: It is a very serious situation. Of course, we are only beginning; it is just two weeks ago today that we left Ottawa, and we sat for the first time





the day before our departure. We have not by any means exhausted our researches into possible economies. We are pressing that inquiry on as rapidly as we can.

HON. MR. MAJOR: Elimination of services will do a great deal of injury here by creating unemployment, and incidentally the cost will come back on the State in another way, because we will have to maintain the unemployed.

THE CHAIRMAN: The unemployment figures are pretty high I understand.

HON. MR. MAJOR: At one of the C.P.R. towns, Brookland, they closed the shops; the men were immediately thrown on relief. They had been working on short time and voluntarily surrendered their rights under that agreement in order to give other men an opportunity to get a small return; but immediately the C.P.R. closed their shops those men had no resources at all and were right on the city, on the province and on the Dominion.

THE CHAIRMAN: That is one point undoubtedly that affects the elimination of service.

HON. MR. MAJOR: The same at Transcona, where five or six thousand people depend on the Canadian National Railway shops.

THE CHAIRMAN: The only alternative to economies is increased taxation in the situation you have mentioned.

HON. MR. MAJOR: The money has to come from some source.

THE CHAIRMAN: I do not know whether one can say absolutely that there is no market for loans in the United States.

COMMISSIONER LEMAN: There is no question about that.

HON. MR. MAJOR: There is no market for our wheat,



Mr. Chairman.

COMMISSIONER LEMAN: We are being thrown back, as you already know, on our resources in Canada. The financial markets are closed to all intents and purposes. The problem is to ascertain what is the best use to be made of the available resources in Canada. It may be in covering railway deficits, it may be in providing relief, it may be in many other ways. That is what we are trying to ascertain and to get the views of yourselves and others as to what you think is the best method.

THE CHAIRMAN: There is a possibility of retrenchment in general government expenses. Last year the general cost of government was \$400,000,000, including capital expenditure. That is a tremendous sum.

HON. MR. BRACKEN: Mr. Bennett tried to cut it down, but even then he did not get very far.

THE CHAIRMAN: The railway debt amounts to \$1,250,000,000 roughly speaking. Of that half a billion is guaranteed by the government, and of the balance \$250,000,000 is treated as a government debt, because the fall of the bonds would really imperil the integrity of the whole system. It is essential that that that should be done in the interests of the railway. Of course, just how far economies might be effected in that \$400,000,000 is a question which is not within our purview. But there you are.

HON. MR. BRACKEN: We have a job like that to tackle but on a smaller scale.

COMMISSIONER LEMAN: On what basis are you going to tackle it?

HON. MR. BRACKEN: Between ourselves, it will be by



retrenchment in part, if not altogether.

COMMISSIONER LEMAN: Because there is no other way practically. Is there any other way for the Federal government?

HON. MR. MAJOR: The attempt to increase revenue by additional rates will not bring in very much additional revenue, and it will create a storm of protest.

COMMISSIONER LEMAN: It may cripple business.

HON. MR. MAJOR: Wreck it entirely.

THE CHAIRMAN: What about diminution of wages?

HON. MR. MAJOR: I understood the Dominion government has not raised the question of wages.

THE CHAIRMAN: We have to consider the whole problem. Theoretically, of course, that is a possible economy.

HON. MR. MAJOR: A conciliation board have recently given a decision on the question of railway wages. I imagine they have taken into consideration all possible causes and conditions in giving their judgment.

THE CHAIRMAN: The whole question was not really before the board. The precise question before them and the only one they were entitled to consider was the question as to a 10 per cent diminution.

HON. MR. MAJOR: As far as railway wages are concerned, there are so many agreements and regulations in effect, of which we know nothing, that to attempt to express an opinion would be unsatisfactory.

COMMISSIONER LEMAN: Was the question of immigration raised in your very admirable report?

HON. MR. MAJOR: I quoted Mr. Beatty.

COMMISSIONER LEMAN: What is the present policy of Manitoba in that respect?





HON. MR. MAJOR: The policy of the Dominion is the policy of Manitoba. If we have not a market for our farm products, what is the use of putting people on the farms? We have ample farm products, and if they could be sold there would be no railway problem, because when our grain is not sold the railway rolling stock is standing idle in the sheds, the wheels are not rolling. Our belief is: Provide us with markets and the railways will prosper. If you can provide markets, Mr. Chairman, I think you have got a solution of your whole railway problem.

THE CHAIRMAN: The difficulty with railways as with everybody else is lack of business.

HON. MR. MAJOR: Yes. We think we have business here for them if we can only get them to move it.

HON. MR. BRACKEN: Answering Mr. Leman's question, under present conditions the policy of the province of Manitoba is the same as that of the Dominion. It would not improve our conditions here to produce more grain products than we are producing now.

COMMISSIONER LEMAN: You are not encouraging, you are discouraging immigration?

HON. MR. BRACKEN: Yes, we are discouraging it in every possible way.

COMMISSIONER WEBSTER: You take in some people with means?

HON. MR. MAJOR: There is not any restriction on people of means coming here. It is the general wholesale immigration policy they are trying to discontinue.

HON. MR. BRACKEN: To be more specific, we are discouraging in every possible way the development of new communities. Where there is to be any development it has





to be in the areas now served by railways, roads, schools, and so on. We do object to the development of new areas that will require railways, roads, schools and other facilities.

COMMISSIONER WEBSTER: Would you recommend the cutting out of the huge item of over half a million dollars a year for the colonization and immigration activities of the C.N.R. in Europe?

HON. MR. MAJOR: Perhaps this will answer your question. Under present conditions we do not want to have the responsibility of caring for any portion of those immigrants in Manitoba. That is limited purely to immigration and colonization? It does not include anything for trade commissioners.

COMMISSIONER WEBSTER: I do not think so.

HON. MR. BRACKEN: This is just a related fact. We would have saved all this expense on immigration if we could have kept our natural increase. In other words, we would have the same population.

HON. MR. HOEY: We have been losing our natural increase.

HON. MR. BRACKEN: Of course, if we had not had this policy of immigration our population might have been less.

COMMISSIONER LEMAN: Mr. Prime Minister, of the three prairie provinces I suppose Manitoba would have the largest proportion of diversified farming?

HON. MR. BRACKEN: Yes, and Alberta second.

COMMISSIONER LEMAN: And Saskatchewan third?

HON. MR. BRACKEN: Yes.

COMMISSIONER LEMAN: I understand from Mr. Major that the province of Manitoba per unit of population has the



largest railway mileage?

HON. MR. MAJOR: No. I should say we have a large mileage; I think it runs about one for every two hundred.

COMMISSIONER LEMAN: Saskatchewan has one to every one hundred and thirty-five.

HON. MR. MAJOR: We have a rather high percentage of railways to population.

COMMISSIONER LEMAN: Would not the volume of traffic over the railroads be considerably smaller in communities where diversified farming is carried on rather than commercial wheat growing?

HON. MR. BRACKEN: I would not want to attempt to answer that. You ought to be able to get reliable data on it.

COMMISSIONER LEMAN: You would have no records on that score?

HON. MR. BRACKEN: No.

HON. MR. MAJOR: This can be said, though, that the shipment of dairy products to the markets in the larger centres in this province is for the most part carried by truck.

THE CHAIRMAN: I suppose we should be able to get precise figures from the railways?

HON. MR. BRACKEN: Yes.

THE CHAIRMAN: I suppose from the railway point of view the important thing is that grain and grain products have uniformly the longer haul. Mr. Loree can tell us, I have no doubt.

HON. MR. BRACKEN: It has always been my impression that diversified farming as it developed tended to make the revenues of the railway less. That has been contradicted.



COMMISSIONER LEMAN: You say it is being contradicted?

HON. MR. BRACKEN: It has been contradicted, but not by anybody whose view would be authoritative. My own view has been that as we changed from grain farming, with the long hauls for its products across the country and the ocean, and got into diversified farming, the railway traffic was cut down to short hauls, and that consequently the railway revenue would decline. Not from authoritative sources but from railway people I have received the impression that that is not the case. That was perhaps prior to the time that motor trucks came into use. But our opinion on that is not worth anything.

THE CHAIRMAN: Mr. Loree is very familiar with the subject.

COMMISSIONER LOREE: I would say, Mr. Chairman, that the fact would be that as the country developed the tonnage hauled by the railroads would increase. I think that is brought out by the history of States like Iowa, Nebraska and the Dakotas, where conditions were very similar in the early days to what they are here now.

HON. MR. BRACKEN: The haulage of innumerable small tonnage more than offsets the long hauls of wheat.

COMMISSIONER LOREE: Very much so.

I have been a good deal puzzled as I have tried to think out this situation. Perhaps a man fifty years from now, reviewing the history of the last few years, will look upon the railroads as having been the objects of public plunder. Take the railroads of the United States, from 1900 to 1930 their investment on road and equipment -- their capitalization -- had increased 148 per cent, while their taxes had increased 806 per cent. No such increase as that has





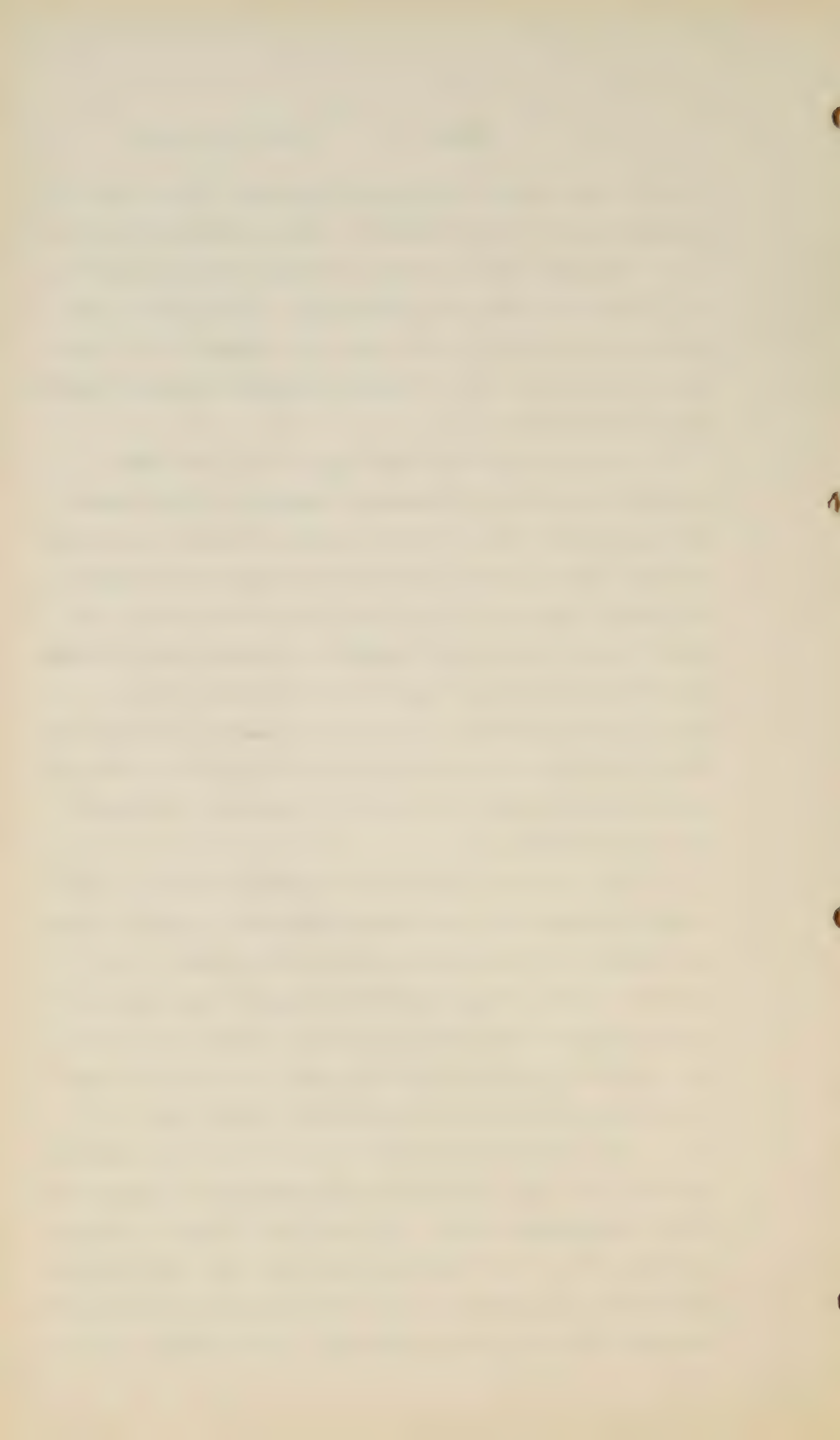
occurred with respect to private property. There has been a plundering of the railroads by the public administration.

The same thing is true of labour. Labour wages in that time have increased 412 per cent. Now labour works shorter hours there is less work, the returns are of less value per capita, and yet labour is getting more per capita than it did before.

Going back to the beginning, in the year 1830, a hundred years ago, a locomotive engineer on the London and Manchester road got \$5.25 a week; he made a round trip of about ninety miles a day; he took care of his engine. The Bank of England discount rate in that year was 4 per cent. Today the American locomotive engineer gets thirteen times that weekly wage; and the discount rate of the Federal reserve bank in the States is 1,825. So there has been a decrease in the award of capital of 54 per cent in a hundred years, and an increase in the award of labour of 1,200 per cent.

Now, you have these three instrumentalities in industry -- management, capital, and labour. Is capital some-day going to be discouraged by the way in which it is treated? Is it going to withdraw from that activity? Are people going to stop saving money and say: We will spend what money we get from day to day and let the future take care of itself; it is not worth while looking into it.

The late Sir Alfred Mond in one of his parliamentary speeches said that industry was preserved by the activities of the bankruptcy courts. You have got to have a process of elimination. You trap-nest your hens, and those that do not lay you dispose of. In all other activities except the human you carry that to an extreme. In the human activities,

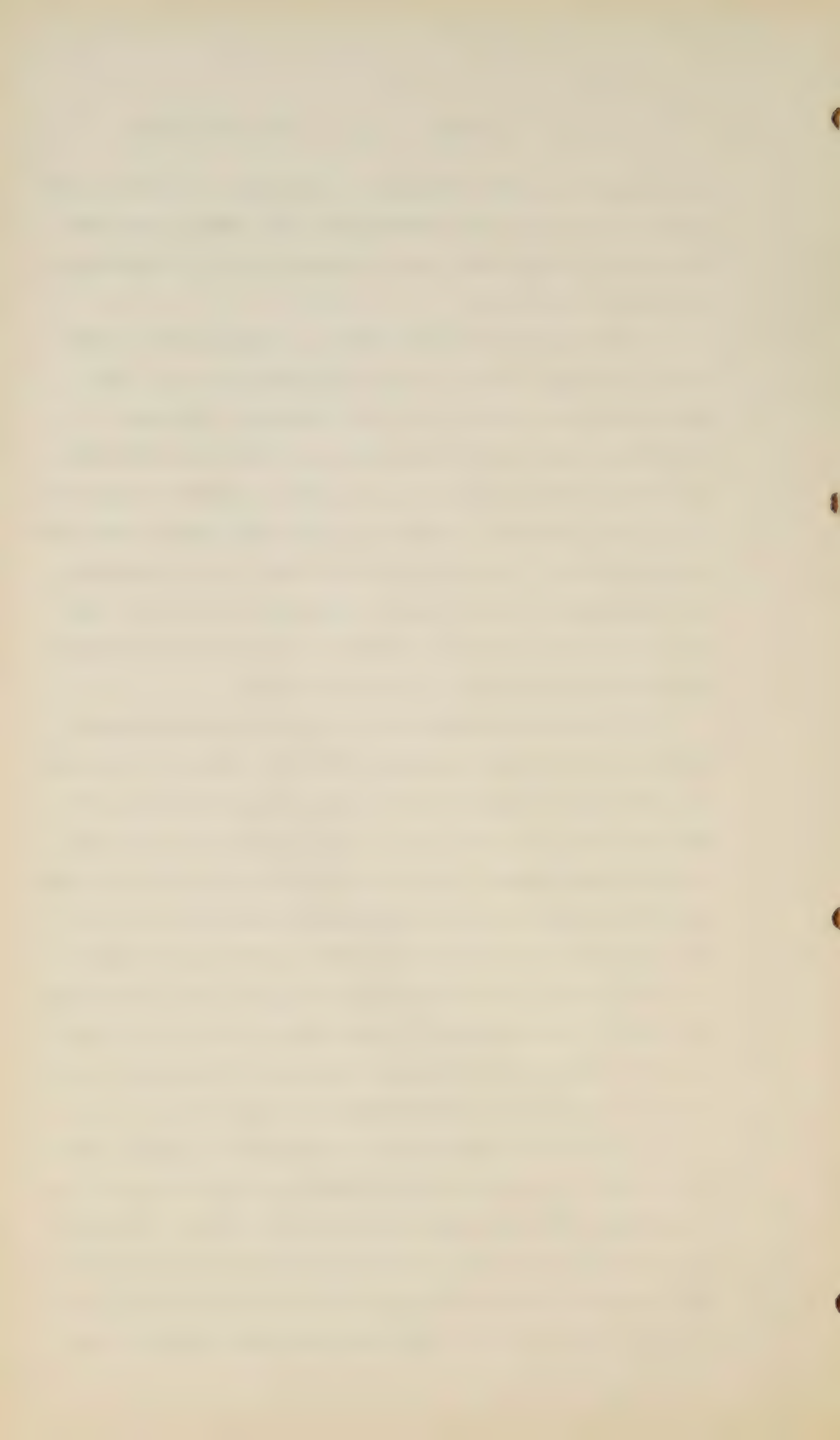


very properly, that principle is immensely modified by the relations due to moral restraints. But human activities as related to industry more or less have got to conform to the law of the world.

The railroads in the States, I think, made a mistake in asking for an increase in freight rates. That application was denied, but the Interstate Commerce Commission made certain suggestions, which the railroads accepted, and they are now going into a modified socialism to try to defeat the bankruptcy courts and sustain the railroad structure. Meantime the wage scale notwithstanding the falling cost of living is maintained, on the general theory that that money is spent and therefore business activities are promoted by its circulation.

I have, unfortunately, lived through three panic periods. One remedy suggested after the panic of 1873 was the greenback issue: If we had more money, they said, our troubles would be over; and a large party supported the issue of greenbacks. Then we had a very bad panic in 1893; presently that same notion reappeared and they said: If we had free coinage of silver with a relation of sixteen to one of gold, all our troubles would be over. Now you see the same thing appearing in the effort to get off the gold basis in maintaining the wage scale, and the logical result will be not only to maintain but to increase it.

I think our remedy lies in trying to find out what it is that has caused the maladjustments from which we are suffering, and then trying to eliminate them. I have not been disturbed by motor truck and motor bus competition. The motor bus apparently takes only about 3 per cent of the passenger business that the railroads have lost; it has



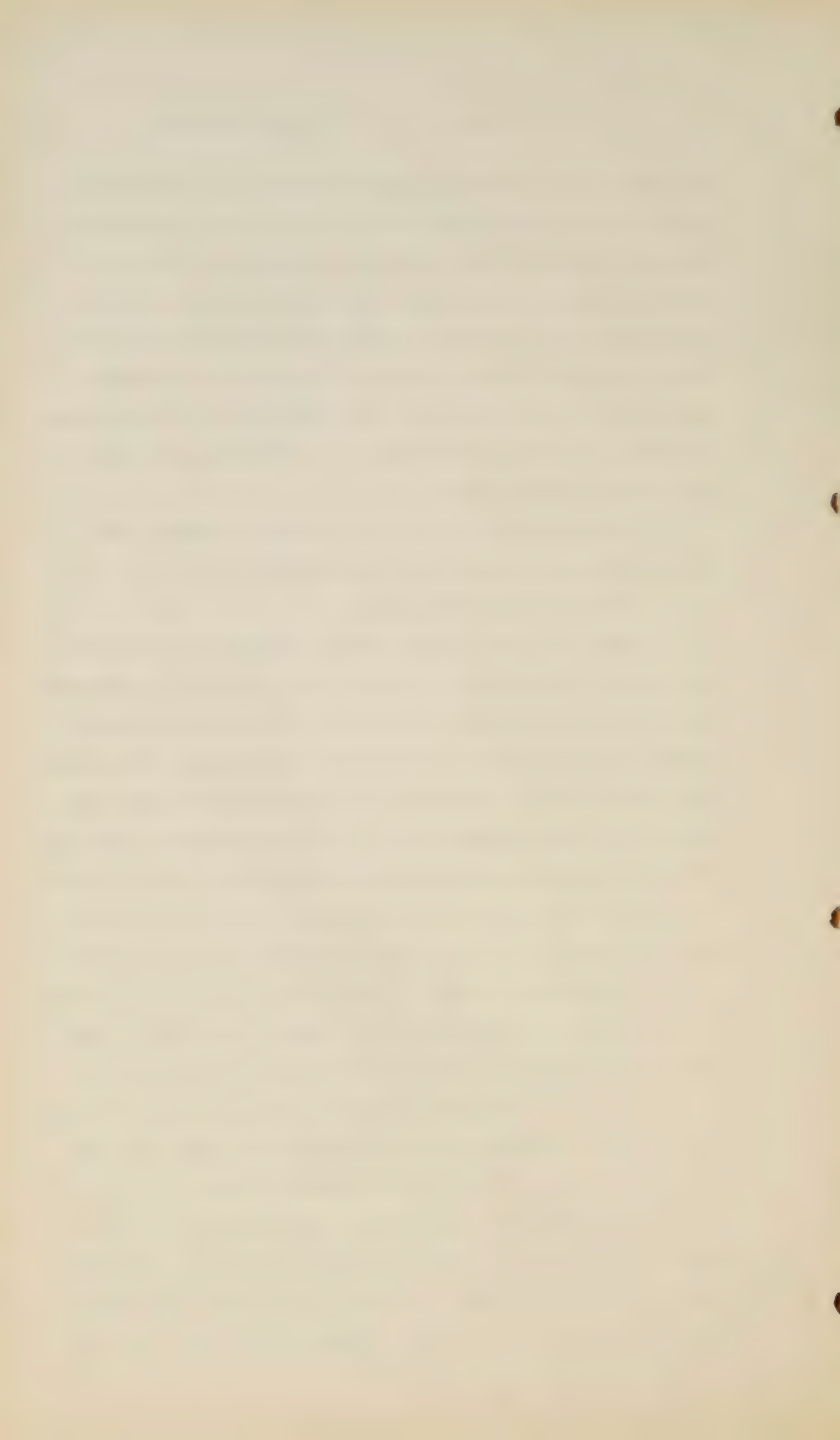
all gone to the privately owned individual car. Therefore any relief we are looking for will not be had by restraint of motor bus operation. About 88 per cent of the motor truck equipment is privately owned and operated, about 6 per cent of it is privately owned and operated under contracts, and only about 6 per cent is operated by common carriers. Therefore I cannot see any relief by legislation affecting the only group that can be affected, and that is the common carrier group.

HON. MR. MAJOR: 88 per cent would be what, commercial concerns using their own trucks?

COMMISSIONER LOREE: Yes.

HON. MR. MAJOR: Should they be taxed heavier than the average truck owner is taxed? For instance, a wholesale house here has customers in Portage la Prairie, Brandon, Virden and away west to Regina. They send trucks out loaded with goods, and they are able to make the entire trip by road. They are carrying goods to their customers, they are not common carriers, they are not accepting a fee for doing it. Should they be treated as common carriers, or should they be allowed to operate on the ordinary truck license?

COMMISSIONER LOREE: I think they ought to be allowed to operate on the ordinary truck license. We had the same experience with the interurban trolley. The charters enabled the trolley companies to carry passengers and freight. A great deal of mileage was constructed all over the more thickly settled portions of the States. Some of the railroads became frightened and bought trolley lines. The New Haven did so, and it forced them into bankruptcy. The New York Central did so, and they sold out at what was practically an entire loss. My own company did so and sustained





a loss of \$20,000,000 in the operation. I cannot find that these bus and truck companies are profit making companies when they keep their books as a business house keeps its books, with proper depreciation and expense charges. They delude themselves by leaving those out, and the majority of them will not be able to buy new vehicles when the old ones wear out.

The door-to-door delivery and collection of freight is a very old institution. The London and Manchester railroad bought a half interest in Pickford and Company who had come into control of cartage between London and Liverpool and intervening towns. The Pickford Company did collection and delivery between the depot and their customers' places of business, and the latter hardly knew that any change had taken place. Eventually the railroad bought out the company entirely. Last year four railroads in England lost \$6,000,000 on the service, the year before \$6,200,000. It is not a profitable service for the railroads to go into; they cannot contemplate anything but loss.

So I think in the end we have got to come out of this trouble as we have come out of former troubles, by trying to determine definitely what the elements are and eliminate them, and adjust ourselves to the new conditions.

Now, my own company has reduced its man-hours work in 1930 as against 1913 by 25 per cent, and its wage bill for that lessened activity on the part of the workmen is 184 per cent more.

HON. MR. BRACKEN: Have you a suggestion for it?

COMMISSIONER LOREE: There are various ways of going at it. There are two mistakes which I think labour has made against its own interests. First, in the way in which it

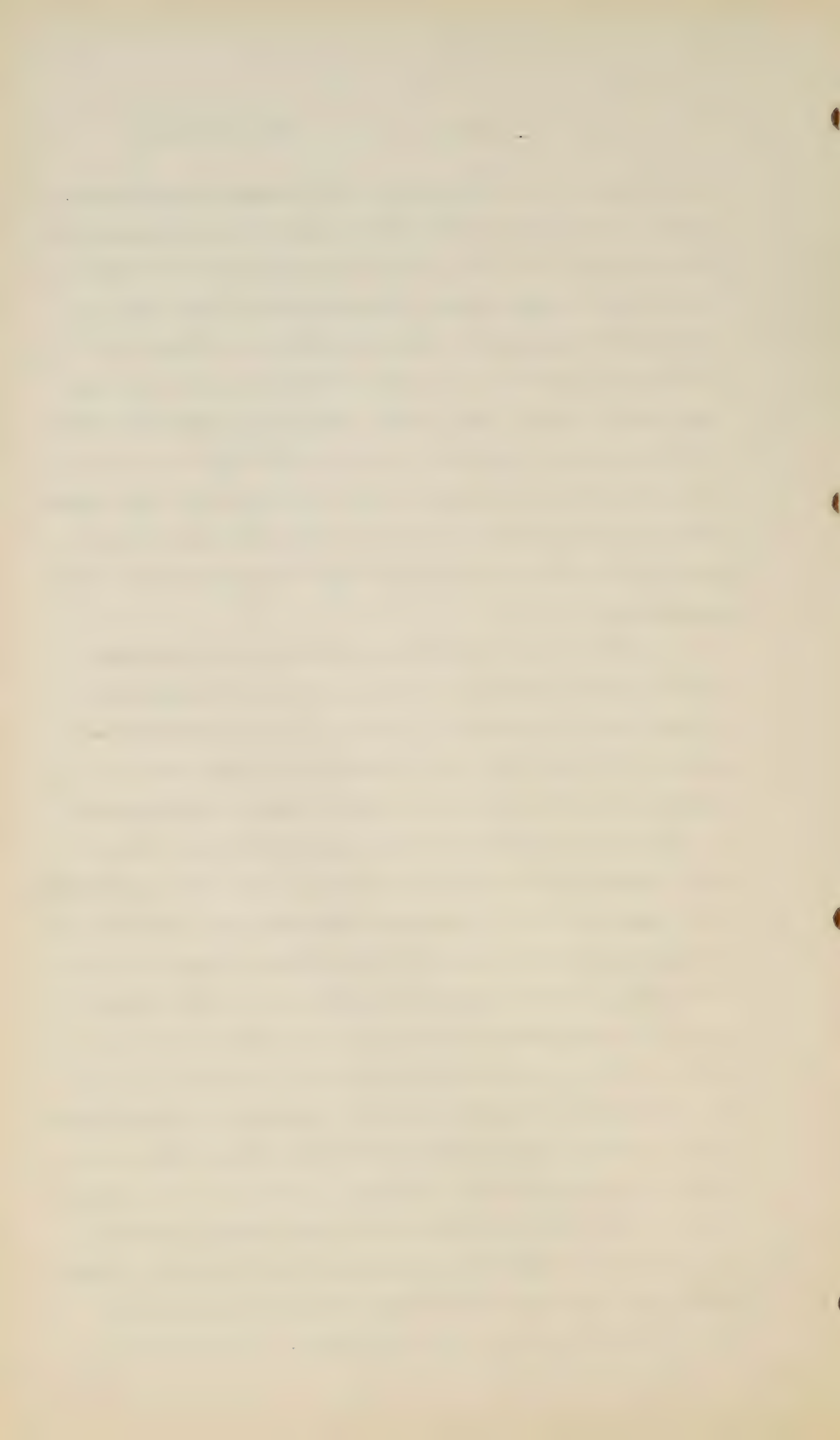




has looked at its relations in the industrial organization. It has felt, or has been led to feel, that it would be to its advantage if it had a voice in management. It has no competency for management, it takes none of the responsibilities of management, and its interference simply increases the expense. The other mistake it made is in the wage scale itself. Now, inside this room I might say that we in my company have felt that we should like to try out the resources of management before we attack the wage scale. We have in railroad service about 134 practices that increase the expenditures and restrict the flexibility of the operations.

Labour uses two instrumentalities, the instrumentality of its economic pressure and the instrumentality of legislative enactments. Some of those legislative enactments we shall not find it possible to deal with at present, but the other is an open question. As an example of legislative enactments I may say that we run a train from Oneonta into Pennsylvania; when we get at the Pennsylvania line we stop the train and take away the brakeman. It is a delightful ride down the Susquehanna valley, a fifteen foot grade, a level road practically; but in Pennsylvania going over the Moosic Mountains it is a sixty-five foot grade, and if ever we need an additional brakeman it would be there, but we have not got him. Presently a train coming north picks up this brakeman left at the State line. We have not only to pay him his wages, we have also to furnish him with caboose accommodation and provide him with lantern, flag, torpedoes and various other things. I would rather pay him fifty cents a day and let him stay home.

We have said to our engine men -- I would not want



this to be made public at present -- Let us have a new arrangement, a trial agreement for a year; the only article we will retain of those you have got is the article of seniority. I was talking to the office this morning by telephone, and I find they have almost got a majority of our engine men signed up. They have gone to them one by one, and they think that today they will be able to close up the majority. I think we would get far more out of that than we would by a 10 to 15 per cent decrease in wages. I would rather exhaust that as one of the resources of management before I touch wages. That may not be enough, but it is evidence of good faith, it is evidence of managerial effort, and I am very hopeful of it.

When it comes to our shops, our maintenance people, we have no agreements, we work on the piece work basis. They have a very high scale of earnings as compared with any in the neighborhood, and we may have to attack that on the question of wage reduction. But that can wait until the other is tried out. As I say, I think we have got to find out one by one what the maladjustments are and resolutely put those maladjustments into proper relation. Whether it is taxes, whether it is wages, whether it is capitalization, whatever it may be it must give way if we are to resume a healthy condition.

COMMISSIONER LEMAN: Has the province of Manitoba had to take over any railway system in connection with guarantees given in earlier years?

HON. MR. MAJOR: No.

THE CHAIRMAN: Your guaranteed bonds are of railways that now form part of the Canadian National system.

HON. MR. MAJOR: Yes.



COMMISSIONER LEMAN: Your decks are clear?

HON. MR. MAJOR: I think our decks are quite clear.

HON. MR. BRACKEN: We have had to take over some other things, though we have not had to take over railways.

COMMISSIONER LEMAN: What was that, may I ask?

HON. MR. BRACKEN: Farm loans, rural credits, elevators, wheat pools.

THE CHAIRMAN: You have not yet attempted to regulate highway freight, have you?

HON. MR. MAJOR: Yes. Mr. Cottingham has that pretty well in hand.

MR. W. R. COTTINGHAM, K.C. (Chairman, Municipal and Public Utility Board): We operate only on the common carrier. Our experience confirms the figures Mr. Loree gave as to the number of private operators. We prepared a general tariff last winter which is a simplification of the Freight Association's tariff; that is, we have reduced the classifications to four. We had to take road mileages rather than rail mileages between points, of course. Like all other things, it is somewhat difficult to enforce, but the operators amongst themselves are rather careful to report any violations that they come in contact with.

THE CHAIRMAN: Limited to common carriers that is not so difficult to apply.

MR. COTTINGHAM: After my experience I should be rather disposed to disagree with Mr. Loree as to regulation of the private carrier. Of course, your position on the other side of the line arises from a constitutional defect: you cannot compel a man to devote his services to the public use. We are not so limited in our provinces here. Within our scope we could legislate without limitation, and I have





a feeling that when you analyze it there is no distinction between a man driving a truck full of his own goods and selling them at an increased cost to the rural consumer sufficient to cover his transportation expense and the man who does it merely for hire. From our point of view the destruction of the highway and the interference with traffic admits of no distinction in principle between the two. Where we, as I said yesterday, have gone off in a wrong direction an adaptation to our needs of American State statutes making the motor carrier a public utility. He is not really a public utility at all in the legal sense; he is forced in. As I have been saying to the Attorney General, I think we have got to reconsider all our motor legislation from a different point of view. For instance, where we have a man carrying ten tons on a three ton truck he should not be permitted to do so, whether he is carrying his own goods or somebody else's for hire. Where we have men going out with hard rubber tires, as they are from the city, on to gravel roads that will only carry balloon tires, it is not a question of utility, it is a question of traffic.

THE CHAIRMAN: Of course, the constitutional difficulty does not exist with us.

MR. COTTINGHAM: Yes. The point of view in the United States is based on constitutional limitations that we should not be influenced by at all.

COMMISSIONER LOREE: I think the police regulations have to do with the use of the highway as highway.

THE CHAIRMAN: The local legislatures have complete control.

MR. COTTINGHAM: I understand that in England under the Road Traffic Act they have very vigorously gone after the



Hon. Mr. Major  
Mr. Cottingham

problem as we did with the urban transportation system fifteen years ago. It came to the point with us: You must have your street railway; are you going to allow the jitney to kill it? After a period of hesitancy the city stepped in and ruled the jitney off the streets. We said: It is too bad but we cannot have both. I think in some rural localities they will have to decide in the same way between their branch line and trucks. It will be a case of: Are you going to have your branch line or allow it to be torn to pieces by truck competition?

THE CHAIRMAN: I suppose there is no very great practical difficulty as to the type of regulations you are speaking about?

MR. COTTINGHAM: No.

THE CHAIRMAN: There is the truck and it is very difficult indeed for the carrier to escape.

MR. COTTINGHAM: I feel we are started on the right road, sir. From the point of view of cost regulations, I submit that cost should be a direct charge on the people who are using the roads and obtaining the benefit, not on the state at large.

THE CHAIRMAN: As to the regulation of rates, it has been suggested to us by some railway officials that effective regulation is practically impossible. That has not only been suggested, it has been asserted very positively.

MR. COTTINGHAM: Like everything else, we are in a new field and have to experiment.

THE CHAIRMAN: You cannot get after the bootlegging carrier, so to speak, the individual carrier?

MR. COTTINGHAM: Not so easily, but a system of inspection can be worked out.



THE CHAIRMAN: I was not convinced by what they said. They spoke of the experience in the United States. I am not sure if that is entirely contrary to what you say.

MR. COTTINGHAM: The States are in a position somewhat similar to ours with respect to Dominion incorporated companies; we can see what is being done day by day, but we cannot interfere owing to constitutional limitations. Under their police system on the other side of the line I have not any doubt that a policeman could not stop a private carrier to ask certain questions. We are not so limited; we could legislate to authorize our inspectors and police to stop anybody on the roads at any time.

HON. MR. MAJOR: Would you explain the situation in Stonewall and what we did to preserve the street railway?

MR. COTTINGHAM: A year ago the street railway notified the local Council that they were forced to abandon their line to the town of Stonewall, twenty miles out of Winnipeg. That notice was transmitted to us. We selected the most promising motor carrier bringing milk and farm produce from Stonewall to Winnipeg each day; he had some ten or twelve trucks running over the road. Then we selected the most likely one of the street railway company's men to look into the matter. As a result the street railway company loaned the truck operator \$4,000 to get a new truck and fix up his old trucks, and they furnished him with another truck or two as substitutes when his old ones broke down. Having done that we organized the territory. We gave them the franchise and any other carriers in the territory were eliminated. We made Stonewall the delivery point rather than Winnipeg. The arrangement has worked out very successfully. By reason of this larger organization the





company during the potato season turned two or three extra trucks on the road, something that the individual man could not do, and they were able to bring in the potatoes. The truck carrier acts as buying and selling agent for the farmers, and he has been able to get a higher price for some of the produce. The railroad reduced the rate of haulage from 19 cents to 15 cents per hundred pounds. It has worked out successfully so far; what will happen in the future we do not know.

THE CHAIRMAN: You have saved the rail line.

MR. COTTINGHAM: So far. This year they did some work rebuilding the track. If we can get them to do something next year it will be a real line.

THE CHAIRMAN: Could we get precise information as to the situation?

MR. COTTINGHAM: Through the company's officials. If you like I will submit it in writing.

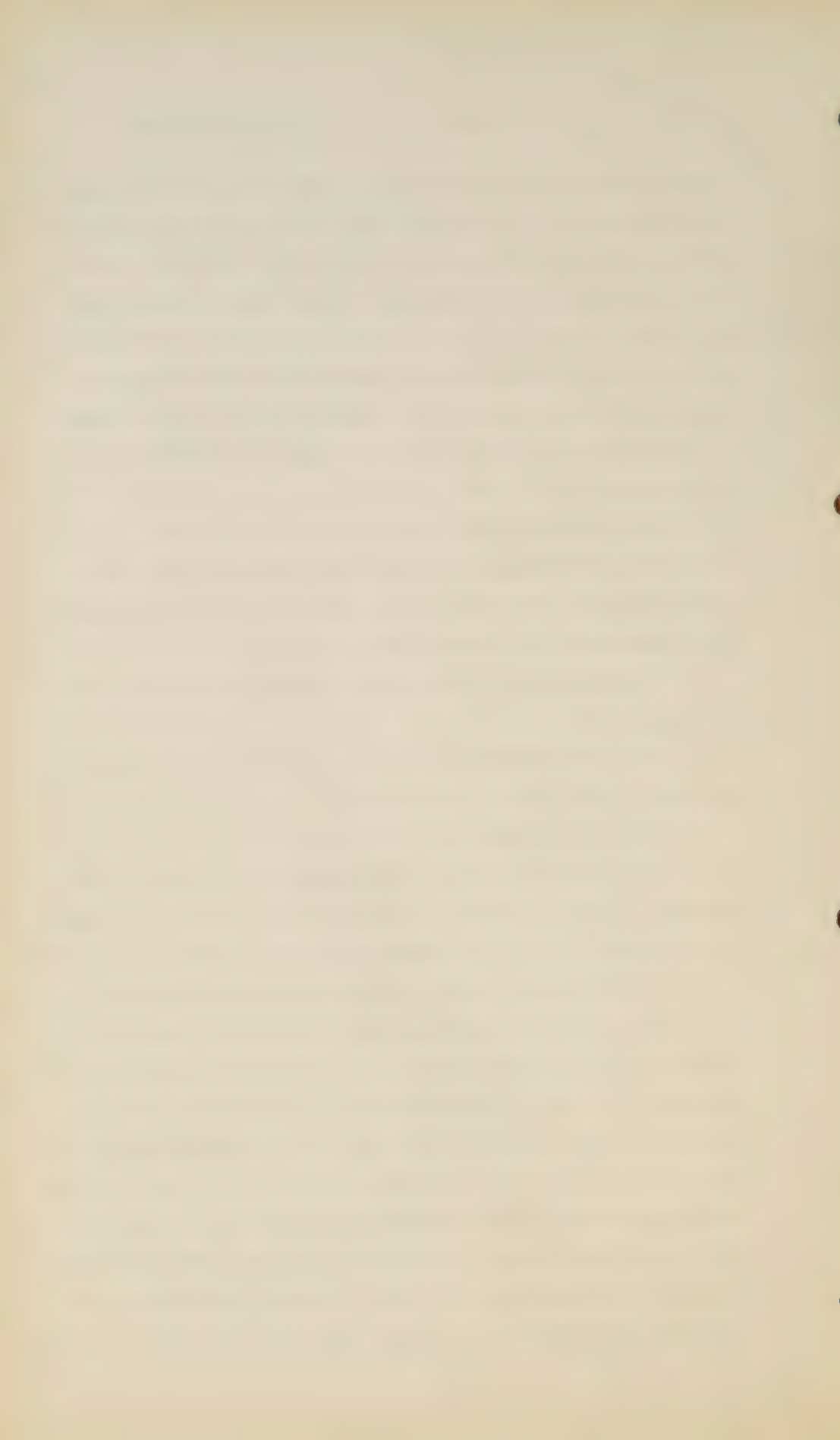
THE CHAIRMAN: I wish you would.

MR. COTTINGHAM: The same company has a line out to Selkirk, directly north of the city. That problem was solved by giving the railway all the trucking facilities.

THE CHAIRMAN: Giving them an exclusive license?

MR. COTTINGHAM: Yes. They bought out a couple of local men who operated there. They are their own competitors. You might say that is foolish, but by being their own competitors they are able to take care of the service along the line, particularly the transportation of milk. That is, they have reduced the number of freight cars per day. They took off the car that picked up milk at a quarter after eight and arranged for their truck to pick it up at a quarter to nine, and being themselves competitors, they have been able to



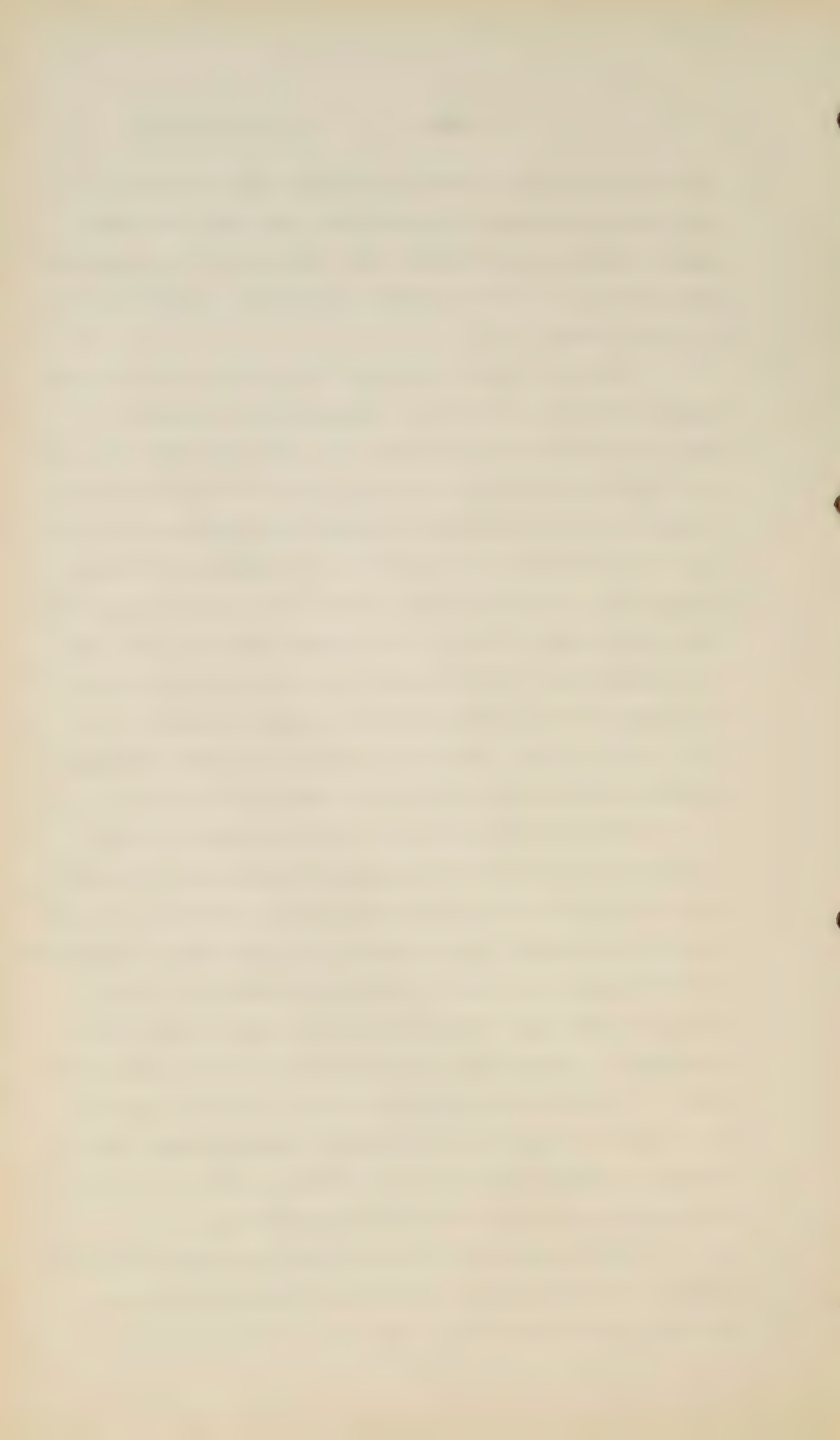


adapt their trucking schedule to their train schedule. On the trucking service this year they will more than break even. Whether in the future they can do that is a problem. For instance, on the Stonewall line it cost them \$7,000 to remove snow.

HON. MR. MAJOR: Are there not certain rules of rail-roading that are inflexible, they cannot be changed? I cannot vouch for the accuracy of it, but I am told that certain implement companies who ship a lot of implements west desired to use the railways because their warehouses were on the railway tracks, but they were not permitted to break carload lots in one division. They said: If you will allow us to break carload lots at one or two points we will be quite satisfied. The railroad said: No, our rule is that you cannot break carload lots in a division, and you must abide by that rule. The result was that all the farm implements shipped to a certain territory went by road.

COMMISSIONER LOREE: In the States the matter is regulated by the Interstate Commerce Commission. When the Commission was first created we had three practices: We had what was called the l.c.l. carload lot, or package freight; we had the carload lot, and we had the trainload lot. The Commission felt that the trainload lot gave too much of an advantage to a very small group of very large shippers, and they changed it so that now we have only two. But the carload shipment is an inclusive shipment from point of origin to terminal and cannot be broken. That is not a railroad regulation, but a government regulation.

HON. MR. MAJOR: In view of this new competition that has come in it may not be worth their while to make any change, but should they not be alive to the situation?

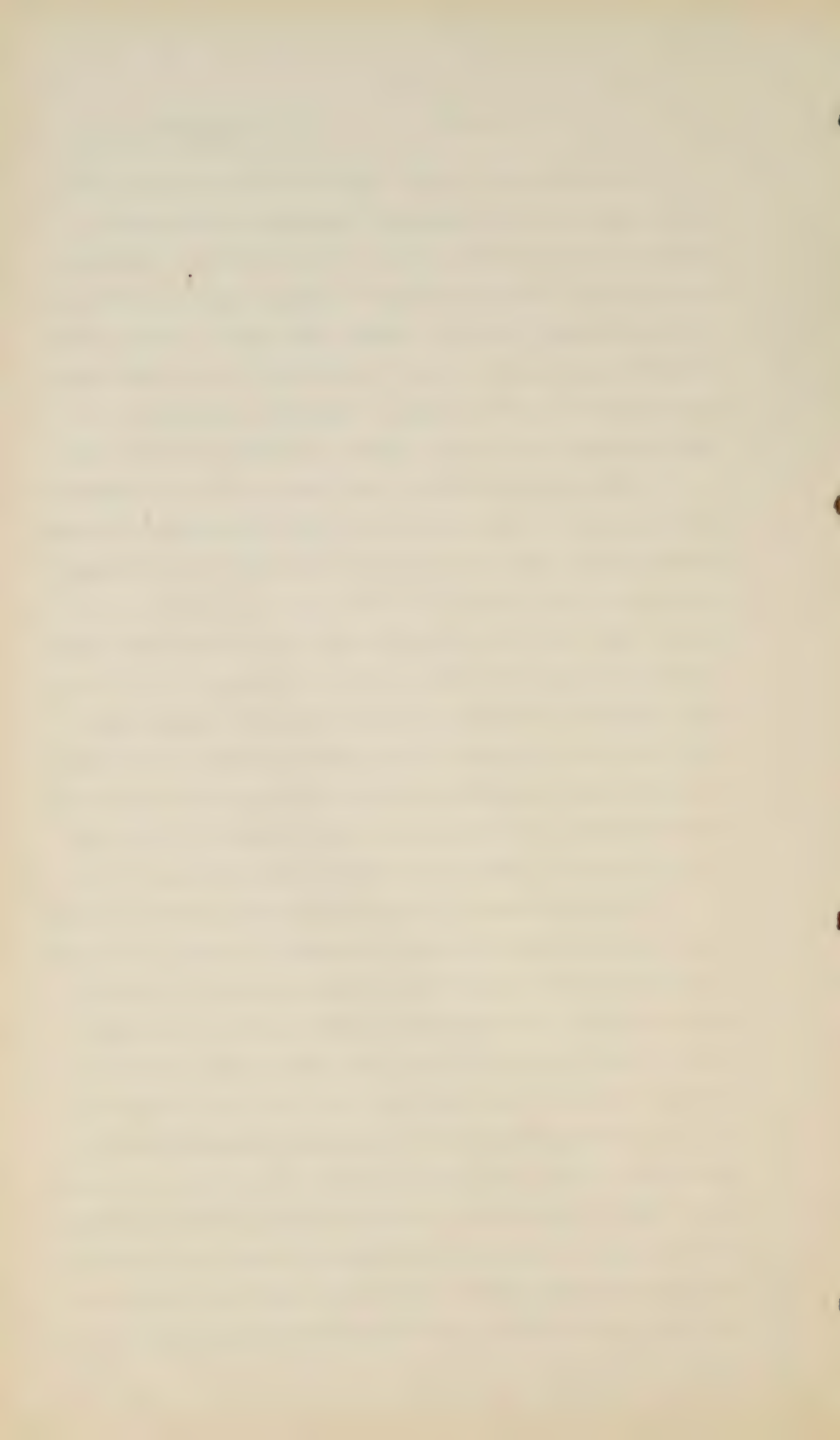


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COMMISSIONER LOREE: They met it to a certain extent in the States by container companies -- forwarding companies they call themselves. They will lease a section of a warehouse and then arrange to ship, say, from New York to Dallas, Texas, carload freight, and reship it from there to surrounding points. But I do not know of any case where a carload is invaded en route. Under the Interstate Commerce Commission ruling it must go solid the whole way.

HON. MR. MAJOR: When I had two or three illustrations given to me the thought came to me that the railroads should rearrange their rules of operation in order to meet truck competition. That competition may not be as great as we think it is; the railways will know best. Some have suggested here that the reason why the railroads have not gone after the road competition is that it is not worth their while to do so. I heard one man say that the truck haulage of goods on the highways during a week would be equal to six carloads only. If that is the fact I suppose it would be hardly worth while for the railways to take action.

MR. COTTINGHAM: A railroad man told me confidentially that they tried an experimental shipment by truck. There is a town about sixty miles west of here, Portage la Prairie. Goods consigned to them to be shipped there by rail they sent by truck during the night, and the shipper and the consignee knew nothing about it. On their truck shipments the railroad kept strict cost accounting, and they said it could not be done profitably. We have always felt that that would apply as against the other fellows. But in the trucking business it is so easy for a man to start; all he has to do is make a small payment on a truck, and away he goes. He can wear out the truck before the other fellow comes after



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him for the money. We have had between here and Brandon a succession of truck operators, but as soon as one would go broke another fellow would start out; I think now we have the fifth. Those fellows are operating successfully, but they admit to me that the only money they make arises out of a family arrangement. The father has a filling station and he sells gasoline to the son at cost price; they consume a considerable amount of gasoline in the operation of eight trucks between here and Brandon, and they make their profit on the difference between the retail and wholesale price of gasoline. They tell me that is the way they keep going.

THE CHAIRMAN: Do you think that will go on indefinitely?

MR. COTTINGHAM: I do not know. But we do find that the expectation that the business would not stand up and would eliminate itself is not being realized, because as one fellow drops out another comes in.

HON. MR. MAJOR: I was rather surprised yeaterday to year the representative of the Motor Bus Operators state to your Commission that they were able to operate and pay dividends. When we were fixing the license fees they represented to our legislative committee that they were pretty well bankrupt. We will be able to use that as evidence against them in the future.

COMMISSIONER LEMAN: You were not supposed to be present.

MR. COTTINGHAM: They are not able to pay dividends. The only ones that are getting along at all are substantial concerns like the Winnipeg Electric and one or two strong cartage companies that have a good business apart from their







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highway business. They furnish no terminal facilities whatever. They have not a passenger depot here in Winnipeg; one of the departmental stores supplies the depot. At Brandon you have to chase all over the city to find where their bus starts; the usual place is a garage, one on Fourth street and another on Tenth. They furnish nothing whatever in the way of terminal facilities.

HON. MR. MAJOR: In the matter of reduction of services, Mr. Chairman, could not the railways eliminate a great deal of cost if they were to use on their roads small buses such as are used on our highways?. A crew would be necessary, but they could run more frequently, and certainly at a much cheaper cost.

COMMISSIONER LOREE: A great many experiments have been made along that line.

HON. MR. MAJOR: We have not had any such experiment here that I know of.

COMMISSIONER LOREE: Up to the present the limit of motor power has been a great detriment. A single vehicle would be operated fairly satisfactorily, but when you want to attach another -- which often becomes necessary -- you do not have power enough to move it, yet you have to make the movement. So far it has not been possible. As I recollect thirty-five years ago I had a small self contained motor with a steam engine fired with coke. It worked well enough with a single car, but when I had to haul a second car up to the ranch I didn't have the power. You see, the railway limitations are very severe; you have got a gauge of only four feet eight and a half inches, and that cannot be altered.

HON. MR. MAJOR: The Railway Association of Canada,



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at the request of the Presidents of the two railways, have had a committee working since August, and they have recently published their recommendations. I may say it is a very long report, but there is something in it of interest to you which it may be appropriate to mention at the moment. They make a comparison between the proposed and the actual registration fees imposed in respect of trucks by the various provinces. Their suggestion is that for a two ton truck there be charged a \$2 fee; while on an average the provinces today are receiving 13.44 for that type of truck. For a three ton truck the proposed fee is \$20.

THE CHAIRMAN: That is the report of the railway committee on motor vehicles?

HON. MR. MAJOR: Yes.

THE CHAIRMAN: I think we already have that.

HON. MR. MAJOR: The proposed fee for a ten ton truck is \$502, so that the provinces are going in the red to the extent of \$394.62 per truck.

MR. COTTINGHAM: You spoke a while ago of reduction of rail services. We have found that that works this way. Around the cities much of the milk which has been brought in by train must of course be delivered daily, and if the train service is reduced to three or to two trains a week, there is a demand on the part of the shippers for a daily service, and we will have two or three shippers from points on that particular line asking for a trucking service. It is almost impossible to refuse their request in such circumstances. Then further out in the country where there is a reduction of train service the local train man will come in and say: "For so many years I have made my living by moving goods from the railway wharf to the merchants in town;



now the railway has reduced its services to such an extent"- don't forget that the merchants in the country towns today are able to compete with the chain store only because of their light stock and their rapid turnover, the stock being maintained by daily deliveries from the trucks -- "the railway has made such a reduction of services that these merchants want me to start hauling from the wholesale in Winnipeg or Brandon, as the case may be, and my business is gone. If I don't do it the regular truck man on the road will." There again you are in a difficult position, because this man's livelihood is gone. The merchants demand the service, and we have felt that in a great many cases we are forced by the discontinuance of rail services to give certificates to the competitors of the railway. Once these chaps get in there I do not know how the railway is going to get them out.

THE CHAIRMAN: Well, Mr. Prime Minister and gentlemen, it has been a very interesting morning and we are indeed much obliged to you.

At 12.00 noon the Commission adjourned.



ROYAL COMMISSION ON RAILWAYS AND TRANSPORTATION

The Royal Commission appointed to inquire into the whole problem of transportation in Canada, particularly in relation to railways, shipping and communication facilities therein, having regard to present conditions and the probable future developments of the country, met at the Parliament Buildings, Ottawa, on Monday, January 4, 1932.

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PRESENT:

RIGHT HON. LYMAN POORE DUFF, P.C., Chairman

RIGHT HON. LORD ASHFIELD )

BEAUDRY LEMAN, Esq., )

LEONOR FRESNEL LOREE, Esq., )

WALTER CHARLES MURRAY, Esq., )

JOHN CLARENCE WEBSTER, Esq. )

Commissioners

Arthur Moxon, Esq., K.C., Secretary

George W. Yates, Esq., Assistant Secretary

Officials of Canadian National Railway Company

Sir Henry W. Thornton, K.B.E., President

S. W. Fairweather, Director of the Bureau  
of Economics

S. J. Hungerford, Vice President of Operation  
and Construction

A. J. Hills, Assistant to Vice President,

C. S. Gzowski, Chief Engineer of Construction.

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Parliament Buildings, Ottawa,

Monday, January 4, 1932.

AFTERNOON SESSION

The Commission met at 2.30 p.m.

THE CHAIRMAN: Unfortunately Sir Joseph Flavelle cannot be with us today; he hopes to join us tomorrow.

Sir Henry, we should like to hear from you with respect to suggestions as to the manner in which the railway situation can best be dealt with.

SIR HENRY THORNTON: Mr. Chairman and gentlemen, you have now, of course, had an opportunity of examining the two properties, and have no doubt heard a good many opinions expressed. What I have to say is largely suggestive, and I hope helpful. Anything that I may suggest I should like to reserve an opportunity to alter in detail as objections may be revealed which quite justifiably might modify such suggestions.

The solution sought of the railway problem of Canada is obviously that which will result in a maximum of efficiency, that is to say economy, and at the same time provide such transportation facilities as will permit communities in particular and the nation as a whole to progress without hindrance.

In pursuit of this objective the amalgamation of the two transcontinental companies, namely, the Canadian Pacific and the Canadian National, has been discussed. Like most remedies, it has advantages and disadvantages, and a sound conclusion can only be reached by striking a balance between the two, not overlooking the chances of practical achievement.



Amalgamation under some unified form of administration will, in theory, produce the maximum of economies of which a material proportion will doubtless fructify. It has been estimated that these economies would yield a return of something like \$60,000,000 per annum, increasing progressively from the first year, and reaching the figure named perhaps at the expiration of a five year period. Whether all of this sum can be salvaged by amalgamation is arguable, but whatever it may be it should not be ignored in the discussion, and it would represent after its full attainment a continuous and annual return.

One of the inherent disadvantages of any state-owned enterprise such as the Canadian National Railway, is the problem of political interference -- and one might also add, public pressure. In making this statement I wish it distinctly understood that I imply no criticism of any party or any government, present or past. I merely state a fundamental and universally admitted condition.

The leaders of all political parties and the people of Canada as a whole are a unit in their desire to prevent political invasion of the Canadian National Railway. But the plain fact is that irrespective of such wishes and desires, the problem presents difficulties beyond the control of our leaders, be they ever so patriotic or high minded. After all in any form of popular government it must be accepted as axiomatic that the business of government is politics and, irrespective of whether one likes it or not, politics is something with which a government must reckon in all of its activities.

This difficulty would of course be removed if the two railways were amalgamated under private ownership; but



at once there is aroused in the minds of the citizens of our Dominion that fear which is quite justifiably displayed whenever a great and formidable monopoly appears -- a fear which the activities of many monopolies in the past have justified. There will also be the criticism that with the removal of competition there is bound to be a deterioration in service and efficiency, irrespective of the desire and effort of the management to avoid such results.

In short, for a variety of reasons, of which two have been expressed, the amalgamation of the Canadian National and the Canadian Pacific would be definitely repugnant to the people of the Dominion in my judgment; and, apart from anything else, it becomes politically impracticable. I believe it must therefore be discarded as a solution.

Perhaps some of you would like to ask me some questions with respect to what I have said as to this suggested solution of the problem.

LORD ASHFIELD: Personally I would rather wait for a fuller statement.

SIR HENRY THORNTON: That is all I have to say at the moment on the subject of amalgamation.

With the abandonment of amalgamation we must address ourselves to: first, the development of that form of direction and administration which will, as near as may be, approach that of a prudently and efficiently organized private enterprise, which would necessarily involve the reduction of political interference to a minimum; second, the development of an intensive degree of cooperation between the two companies in order that waste in whatever form it is found may be eliminated.

Waste may be broadly divided into two classes:





first, unnecessary or redundant services; second, capital expenditures for the purpose of one company or the other gaining a competitive advantage.

To accomplish the first purpose, it is proposed that the direction and administration of the Canadian National Railways be confided to a Board of Directors of ten individuals, two of whom should be the president of the company and the legal vice-president, two Conservatives, two Liberals, two Progressives, one representative of Labour, and a representative of the Minister of Railways and Canals. The two officers of the company named would ex-officio become members of the board. The responsibility of selecting the other members should be reposed in the government. The two designated officers of the company should remain members of the board for the period of their official connection with the enterprise; the other members of the board should hold office for a minimum of five years, with the exception of the representative of the Minister, who would hold office at his pleasure; and all would be removable only for malfeasance. They should be paid a salary sufficient to justify the time which would necessarily have to be devoted to the administration of the company's affairs.

The geographical selection of directors is a popular but faulty doctrine. It is presumed of course that in making appointments of such importance the government would select individuals of high reputation and of that degree of integrity which should inspire confidence. With such qualifications geography should disappear, because it is inconceivable that any individual so selected would unduly or unfairly further or injure the interests of any particular province. For example, the Prime Minister of Canada in his



official capacity represents all of the people of this Dominion; he has at heart the welfare of every section. The same motive may be expected from those who would constitute the Board of the Canadian National Railways. The selection of directors according to geography after all only results in different provinces seeking to gain advantages with none accomplishing much. The result of equal forces pulling in opposite directions is always a stationary condition. It is essential that members of the board reside within a reasonable distance of the headquarters of the company in order that they may be available for such meetings as the conduct of the company's business may require.

As a matter of vital necessity, with the appointment of such a super-commission as has been herein described, the administration of the affairs of the company should be left entirely and strictly to that body, except insofar as capital expenditures are involved. The government, representing the people of Canada, is the proprietor of the Canadian National Railway system. The finances of the railway have a direct and important effect upon the finances of the government. It is therefore both proper and essential that the government should have a determining voice with respect to what capital expenditures should be.

Insofar as operating expenses are concerned, they may be safely left to the board, and, under the direction of the board, to the officers of the company. No board can efficiently deal with the minutiae and detail of operating expenses. The board can only exercise general vigilance and determine general policies; the rest will have to be left to the good faith, the technical skill and the pride of



the company's officers.

It is suggested that this Royal Commission be continued for a period at least in the selection of three of its Canadian members, and that the Royal Commission so constituted receive, examine and determine the annual capital budget of the Canadian National Railways. Upon determination of the amount of the capital budget the Royal Commission should issue a certificate of the amount so determined to the Minister of Railways and Canals, who will then present the recommended amount to Parliament for the necessary appropriation. The Commission should also be empowered to discuss with the officers of the company the expenses and operations of the railway for the preceding year, and should have conferred upon it exclusively the same powers of examination as are now exercised by the Select Committee of Parliament on National Railways and Shipping.

The Royal Commission, in addition, should be vested with the following powers:

(1) To approve and issue a certificate of convenience and public necessity with respect to any capital expenditure on the part of any railway in Canada subject to Federal control which involves the public issue of securities.

(2) To enforce, upon the representation of any company or upon the volition of the Commission itself, such cooperative measures for the purpose of increasing efficiency and the elimination of waste as may be thought desirable, the authorization of pooling arrangements with respect to services, and to enforce upon both railway companies any policy in the direction of cooperation which, in the judgment of the Commission, may be found to be in the interests of the nation as a whole.





The necessary statutes should be enacted to legalize these recommendations, and there should be no appeal to the Governor in Council.

In the matter of immediate cooperation the following proposals are, in part, suggested:

1. The pooling of all competitive passenger services, and probably the pooling of all passenger services whether competitive or otherwise.

2. The elimination of competitive city ticket offices.

3. The coordination of competitive fast freight services.

4. The elimination of trackage where there is definite duplication and where one line can perform efficiently the services of both companies.

5. The consolidation of the telegraph companies of both the Canadian National and the Canadian Pacific into one company, each to have an equal interest. Such joint company to be administered as the two companies may decide.

6. The same arrangement with respect to the hotel systems of both companies.

7. The joint use of local facilities wherever practicable and economical.

8. The interchange of trackage rights and the use of each others lines wherever economical.

And finally, the financial structure of the Canadian National Railways should be reviewed and put on a properly capitalizable and orderly basis.

In the matter of ocean services, the Canadian Government Merchant Marine should either be modernized or abandoned. Insofar as the administration of this activity is





concerned, the Canadian National Railway merely acts as the agent of the government. The future of the Merchant Marine is one of governmental policy.

THE CHAIRMAN: You speak of the pooling of passenger services, Sir Henry. You have not worked that out in detail at all?

SIR HENRY THORNTON: No, that has not been worked out in detail, Mr. Chairman, but I can see no insuperable difficulty with respect to it.

THE CHAIRMAN: The chief advantage, I suppose, would be the elimination of competition in these costly services?

SIR HENRY THORNTON: The chief advantage would be the elimination of what might be described as redundant services with no inconvenience to the public.

THE CHAIRMAN: Yes.

COMMISSIONER WEBSTER: You have made no estimate of what might be saved to the C.N.R. over and above the present arrangements?

SIR HENRY THORNTON: Your question would be, doctor: If those suggestions were adopted how much money could be saved as compared with present conditions?

COMMISSIONER WEBSTER: Quite -- on the C.N.R.

SIR HENRY THORNTON: Mr. Fairweather has answered that question, and I think he is probably in a better position to do so than I am. His estimate is \$30,000,000. Is that right?

MR. FAIRWEATHER: For both systems.

THE CHAIRMAN: What about the Canadian National?

MR. FAIRWEATHER: About sixty per cent would be for the Canadian National.

THE CHAIRMAN: When would that become fully effective?



MR. FAIRWEATHER: In my judgment, based upon the experience gained in the case of the Canadian National, I should say that that could not be fully worked out short of three years and quite possibly five.

THE CHAIRMAN: Three years would be the minimum?

MR. FAIRWEATHER: Yes, sir. There are so many detailed technical problems involved in a matter of that kind that very careful study would be necessary before one would leap in the dark, so to speak.

SIR HENRY THORNTON: Necessarily in a thing of that character much depends upon the volition and good will and desire of the two contracting parties. If both companies entered upon such a general scheme of cooperation with an enthusiastic desire to bring it to fruition as soon as possible, of course that fruition would be expedited. And necessarily when two interests start to do anything, how well it is done depends on how quickly they both move. In saying that I in no sense express a view that either company would be reluctant, but I merely state a fact which would occur to an unprejudiced observer.

COMMISSIONER WEBSTER: You are speaking from the point of view of what is theoretically attainable?

SIR HENRY THORNTON: Precisely.

THE CHAIRMAN: You refer to some of these matters in rather general terms, Sir Henry. Take as an example the interchange of traffic -- I do not think that is the precise phrase you used.

SIR HENRY THORNTON: Perhaps you are referring to interchange of trackage rights?

THE CHAIRMAN: There is something else.

SIR HENRY THORNTON: Joint use of local facilities?



THE CHAIRMAN: No.

SIR HENRY THORNTON: Can you, Mr. Fairweather, give expression to what is in the Chairman's mind?

MR. FAIRWEATHER: I think, Mr. Chairman, what you have in mind is the matter of the rearrangement of interchange traffic.

THE CHAIRMAN: Quite so. Perhaps that is not included among the suggestions?

MR. FAIRWEATHER: I do not think that is included in what Sir Henry had in mind. That was a thought of my own. I think Sir Henry would agree with it, as I distinctly remember having discussed it with him. It relates to the full co-operative interchange of traffic between the two systems to the exclusion of foreign carriers. For instance, the Canadian National Railway at the present time might favour in territory west of Chicago --

THE CHAIRMAN: That is not quite what I had in mind. Perhaps after all it is something that may not be of any great economic advantage to either railway. I was thinking of the through routing of traffic, generally speaking.

MR. FAIRWEATHER: I get your point now, sir. That is another matter I remember discussing with you. That is where one railway had superior facilities to the other.

THE CHAIRMAN: Yes.

MR. FAIRWEATHER: For instance, the movement of grain to Vancouver from northern Alberta territory; obviously it is cheaper to send that over the Canadian National Railway from Edmonton rather than over the Canadian Pacific through Calgary. That is what you had in mind?

THE CHAIRMAN: Yes.

MR. FAIRWEATHER: I think there is very great economy





to be effected in matters of that kind.

SIR HENRY THORNTON: I do not think anyone could draw up a complete list of the possibilities of cooperation just off the bat, or even after a week's examination or more. What would happen is that if both railways were enthusiastically cooperatively minded, and proceeded to explore in that spirit this avenue of cooperation, almost every day new things would be uncovered which could be examined and perhaps adopted.

THE CHAIRMAN: I was rather thinking of this, Sir Henry: You contemplate some Board -- speaking of the Royal Commission -- that will exercise certain control with regard to cooperation. In other words, you contemplate vesting in the Board compulsory powers.

SIR HENRY THORNTON: Precisely.

THE CHAIRMAN: Of course, broadly speaking you could not very well say that a Board composed of A, B and C should have unlimited powers to compel two railways to cooperate. You would have to limit in some way the lines along which these powers could be exercised, and so on. I wonder if that has been worked out?

SIR HENRY THORNTON: No, it has not been worked out. But as a matter of fact I would give to this Board, so-called, mandatory and complete powers. With a Board so selected one could repose very complete and mandatory powers in their hands.

LORD ASHFIELD: Would you mind repeating how you propose that that Board should be appointed?

SIR HENRY THORNTON: I suggest that from the Canadian members of this Board three be selected by the government.

LORD ASHFIELD: Which Board?



SIR HENRY THORNTON: This Royal Commission.

LORD ASHFIELD: That would be the full board?

SIR HENRY THORNTON: That is my idea; it could be five; but one usually finds that the smaller the board the more efficiently it operates.

THE CHAIRMAN: I do not think this Commission, Sir Henry, is likely to make such a representation to the government!

LORD ASHFIELD: I am not quite clear in my mind as to the principle you are pursuing in attempting to solve this problem. I gather that you discard any thought of a public company being responsible for the provision of all railway service in the Dominion?

SIR HENRY THORNTON: I discard that because it seems to be impossible of achievement.

LORD ASHFIELD: I am only trying to get clear in my mind your plan.

SIR HENRY THORNTON: Quite so.

LORD ASHFIELD: I gather too that you discard nationalizing the railway systems as a whole, such as we have understood it.

SIR HENRY THORNTON: If by nationalizing you mean nationalizing also the Canadian Pacific, yes.

LORD ASHFIELD: I do, taking them together as a complete system of railway transport, disregarding at the moment how they may be divided as to ownership. So you discard private ownership on the one hand and government ownership on the other?

SIR HENRY THORNTON: If they involve a monopoly; which they do.

LORD ASHFIELD: So you abandon both of them?



SIR HENRY THORNTON: I abandon any monopoly, whether it be private or public.

LORD ASHFIELD: Let me see whether I fully appreciate what might perhaps be described as a compromise between these two systems. As I understand your proposal it is this -- and I am only trying to deal with very broad principles at the moment.

SIR HENRY THORNTON: Quite so.

LORD ASHFIELD: First of all, you are suggesting that the Canadian National Railway system as it exists today should be continued?

SIR HENRY THORNTON: Yes.

LORD ASHFIELD: You are proposing that the Canadian Pacific Railway system as it exists today should be continued?

SIR HENRY THORNTON: Precisely.

LORD ASHFIELD: I gather too that you are proposing, so far as the every day detailed operations of these companies are concerned, they should be continued pretty much as they are today?

SIR HENRY THORNTON: Yes.

LORD ASHFIELD: With the more or less orthodox scheme of management such as you have of the Canadian National and the Canadian Pacific?

SIR HENRY THORNTON: Precisely.

LORD ASHFIELD: You are also proposing, as I understand, that the government shall be responsible for appointing a board of directors -- if I may use that phrase -- in connection with the Canadian National Railways?

SIR HENRY THORNTON: Precisely.

LORD ASHFIELD: And that there shall be two officers



of the Canadian National Railways ex-officio members of that board?

SIR HENRY THORNTON: Which has been the procedure for many years.

LORD ASHFIELD: Who would select those two?

SIR HENRY THORNTON: The government.

LORD ASHFIELD: The government, then, would be responsible for selecting the ten members of the board?

SIR HENRY THORNTON: Precisely.

LORD ASHFIELD: But the fact would be that of the ten members selected by the government two would become executive officers of the Canadian National Railway system: Do I put it right?

SIR HENRY THORNTON: You do.

LORD ASHFIELD: And they would be all-time men and paid accordingly?

SIR HENRY THORNTON: Precisely.

LORD ASHFIELD: The remaining eight would be sort of lay men?

SIR HENRY THORNTON: Precisely.

LORD ASHFIELD: Having certain qualifications and giving only part of their time?

SIR HENRY THORNTON: Exactly.

LORD ASHFIELD: But to all intents and purposes they would be the board of directors of a company such as you have been accustomed to preside over?

SIR HENRY THORNTON: Precisely. Might I just interrupt to say that there were certain suggestions made with respect to the political affiliations of those directors; that is, there were to be two Liberals, two Conservatives, two Progressives and one representative of Labour, and they were to hold office for a minimum of five years to insure





some continuity of policy.

LORD ASHFIELD: Yes, I appreciate that. As regards the Canadian Pacific -- which of course must be looked upon as a partner in a scheme of this kind -- its directors would be appointed by the shareholders?

SIR HENRY THORNTON: Precisely.

LORD ASHFIELD: And they would function just as the board of directors of any company would function?

SIR HENRY THORNTON: Precisely.

LORD ASHFIELD: I am sorry to be cross examining you, but I want to get the facts in my mind.

SIR HENRY THORNTON: Certainly.

LORD ASHFIELD: We have reached that stage: Two boards, one responsible for the policy and management of the Canadian National, and the other responsible for the policy and management of the Canadian Pacific.

SIR HENRY THORNTON: Yes.

LORD ASHFIELD: Up to this stage we are just where we are today?

SIR HENRY THORNTON: Precisely.

LORD ASHFIELD: You have got two competitive systems?

SIR HENRY THORNTON: Precisely.

LORD ASHFIELD: I gather that what you have in mind is the elimination of competition?

SIR HENRY THORNTON: Certainly.

LORD ASHFIELD: You do not propose that there shall be any competition between these two companies?

SIR HENRY THORNTON: Only that which might be described as laudable competition in pursuit of good service.

LORD ASHFIELD: That is what I am trying to find out. Perhaps if we go one stage further we shall discover what



that competition is. You propose that a sort of super-board shall be established by Act of Parliament and shall be vested with certain powers?

SIR HENRY THORNTON: Yes.

LORD ASHFIELD: Powers which will override all of the powers of the Board of the Canadian National and of the Board of the Canadian Pacific?

SIR HENRY THORNTON: That is true.

LORDASHFIELD: So by Act of Parliament you would propose to wipe out whatever rights the shareholders of the Canadian Pacific might have?

SIR HENRY THORNTON: No, no more than the rights of the shareholders of the railways of the United States have been wiped out by the Interstate Commerce Commission Act as it now stands upon the statute books.

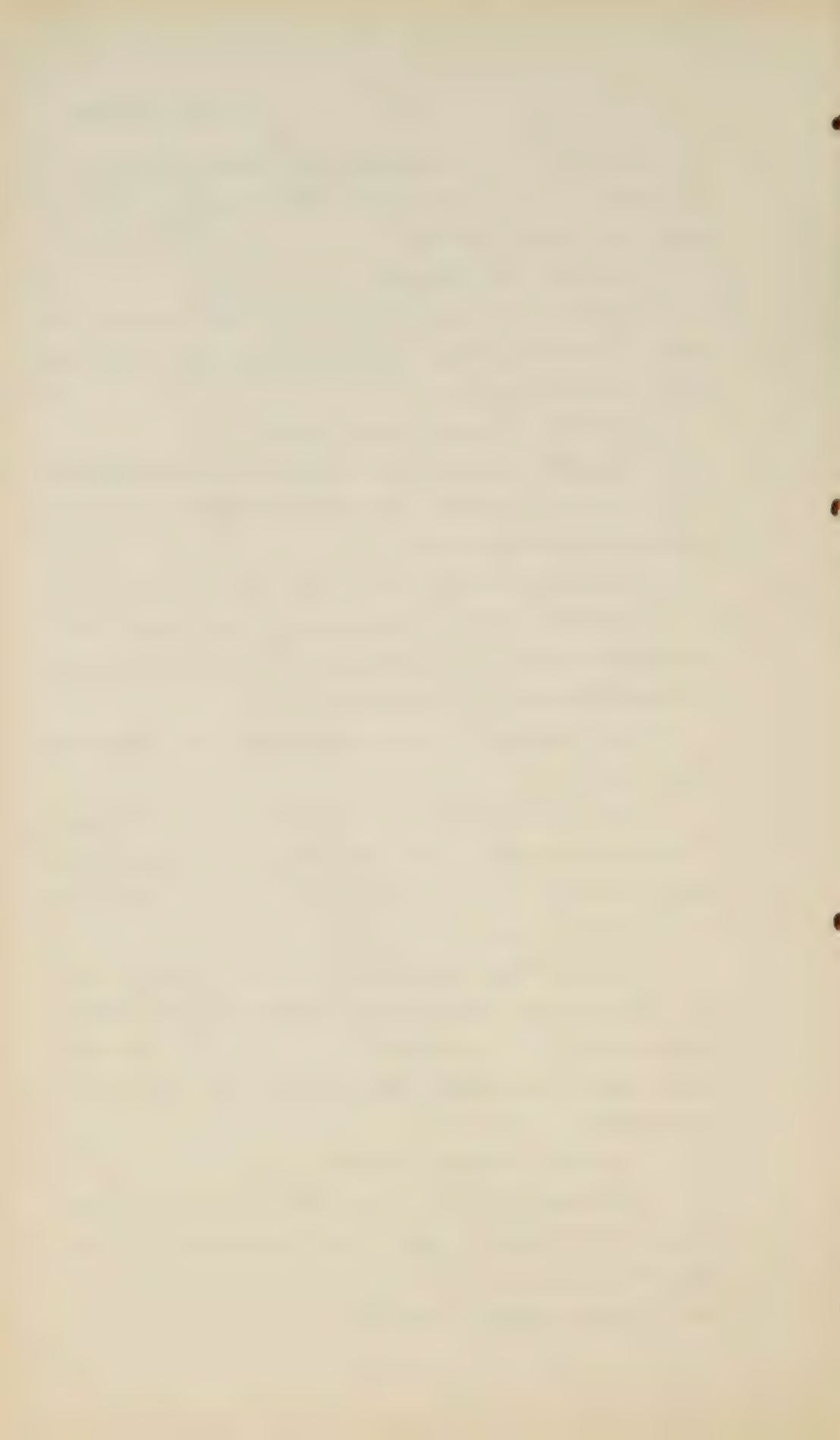
LORD ASHFIELD: I am not arguing that the scheme has not merits.

SIR HENRY THORNTON: I do not think that in any sense it wipes out the equity of the shareholders of the Canadian Pacific Railway; in fact, if anything, I think it would tend to improve their equity.

LORD ASHFIELD: That might be the effect of it. But I am coming to the point that the Chairman has made, that in drafting an Act of Parliament to vest in some statutory body certain rights, those rights must be very, very carefully defined.

SIR HENRY THORNTON: Precisely.

LORD ASHFIELD: If I appreciate it at all, that seems to me to be the pivotal point in your whole plan, that the Act of Parliament must determine in great detail what the rights of this superboard would be.



SIR HENRY THORNTON: Obviously that would have to be the case.

LORD ASHFIELD: If you are going to eliminate competition between these two companies, as I see it, the only alternative to competition must be a complete fusion of interests; or in the absence of a complete fusion of interests, you must clothe this superboard with complete powers to intervene in the event of there being a disagreement between the board of the Canadian Pacific and the board of the Canadian National. You see, so far as I understand your scheme, no provision is made for a meeting between these two boards; they are not fused in any way.

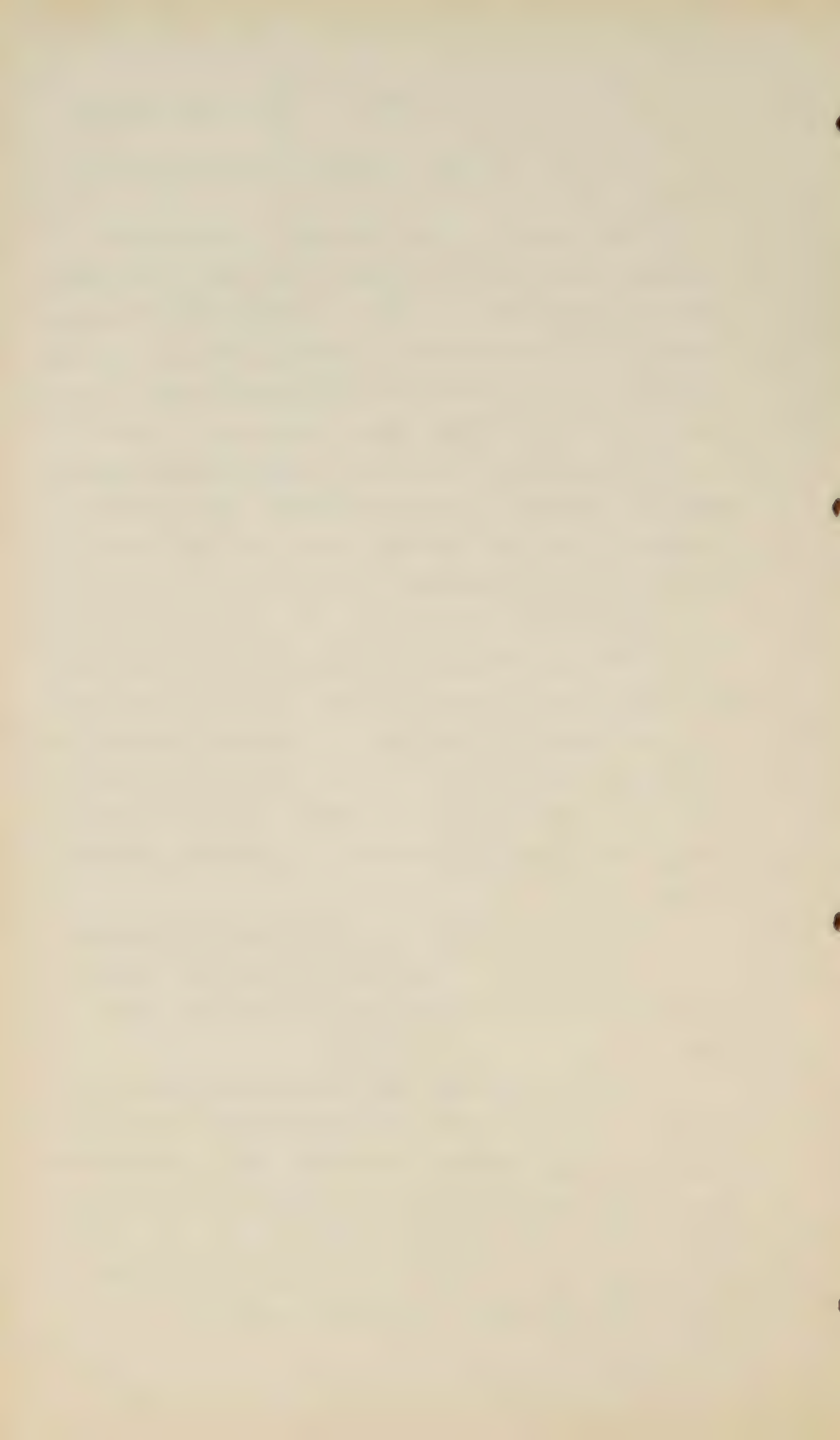
SIR HENRY THORNTON: Oh no.

LORD ASHFIELD: Except as good will and cooperation, as you described it, might determine. But at the same time it is very possible, is it not, in a scheme of this kind that the Canadian Pacific or the Canadian National might take a view of a matter different from that of the other party concerned; there might be a difference of views on a question of policy; --

SIR HENRY THORNTON: Unquestionably there would be.

LORD ASHFIELD: -- and therefore there must be some arbitrary power given to some body to determine in such cases.

SIR HENRY THORNTON: That was the power which I suggested should be vested in this superboard. In other words, my thought was that a reasonable degree of competition in matters of service would go on between the two companies, and as long as they are separate entities there has got to be a certain degree of what I describe as harmless competition. But the object of the establishment of this super-





commission was: First, for the purpose of enforcing co-operation wherever cooperation could be economically enforced; and, secondly, to prevent competitive capital expenditures on the part of both companies for the purpose of gaining a selfish advantage of some sort or other. If those two things could be accomplished by such a tribunal, then what was left of competition could hardly be described as wasteful; it might well be regarded as in the public interest.

LORD ASHFIELD: Necessarily I must speak rather hurriedly in matters of this kind because there has been such a short time to study your plan. Would I accurately describe it if I say that your proposal boils down to this: That the financial responsibility in connection with the Canadian National and the Canadian Pacific would be vested in a board appointed by the government of the Dominion?

SIR HENRY THORNTON: That is what it would practically come down to.

LORD ASHFIELD: The shareholders of the Canadian Pacific having no rights of any sort whatever? Correct me if I am wrong.

SIR HENRY THORNTON: Having no right to make any public issue without the approval of the superboard. That regulatory power exists in other countries today, and, whether reluctantly or not, it has become accepted.

THE CHAIRMAN: You dropped an expression a moment ago that I should like to come back to with regard to the Interstate Commerce Commission. Is what you have in mind really such a supervisory power as is exercised by the Interstate Commerce Commission?

SIR HENRY THORNTON: I can put it this way: I suggest that because I can think of no better way to regulate



competitive capital expenditures. Now, if someone can think of a more effective way, I should be quite open to its acceptance. I merely present the best that occurs to a feeble mind!

THE CHAIRMAN: Of course this board that you suggest would, I suppose, really exercise two different types of functions. As regards the Canadian National, it would exercise a more intimate control than as regards the Canadian Pacific in respect of expenditures and so on; of course, the budget would have to be submitted to it?

SIR HENRY THORNTON: Certainly.

THE CHAIRMAN: In that sense, in a proprietary way, it would represent the government?

SIR HENRY THORNTON: Precisely.

THE CHAIRMAN: It would be the agent of the people of Canada as proprietors of the railway?

SIR HENRY THORNTON: Precisely.

THE CHAIRMAN: On the other hand, it would exercise certain supervisory, subordinate legislative powers, within the scope of which would come both railways?

SIR HENRY THORNTON: And would act as umpire.

THE CHAIRMAN: Yes.

LORD ASHFIELD: Would this superboard -- I am using that phrase for the moment -- by Act of Parliament have the right to enforce upon the Canadian Pacific any future capital expenditure?

SIR HENRY THORNTON: It was not my thought that it would have the right to initiate and enforce upon the Canadian Pacific capital expenditures.

LORD ASHFIELD: Would it have such powers with respect to the Canadian National?

SIR HENRY THORNTON: Certainly.

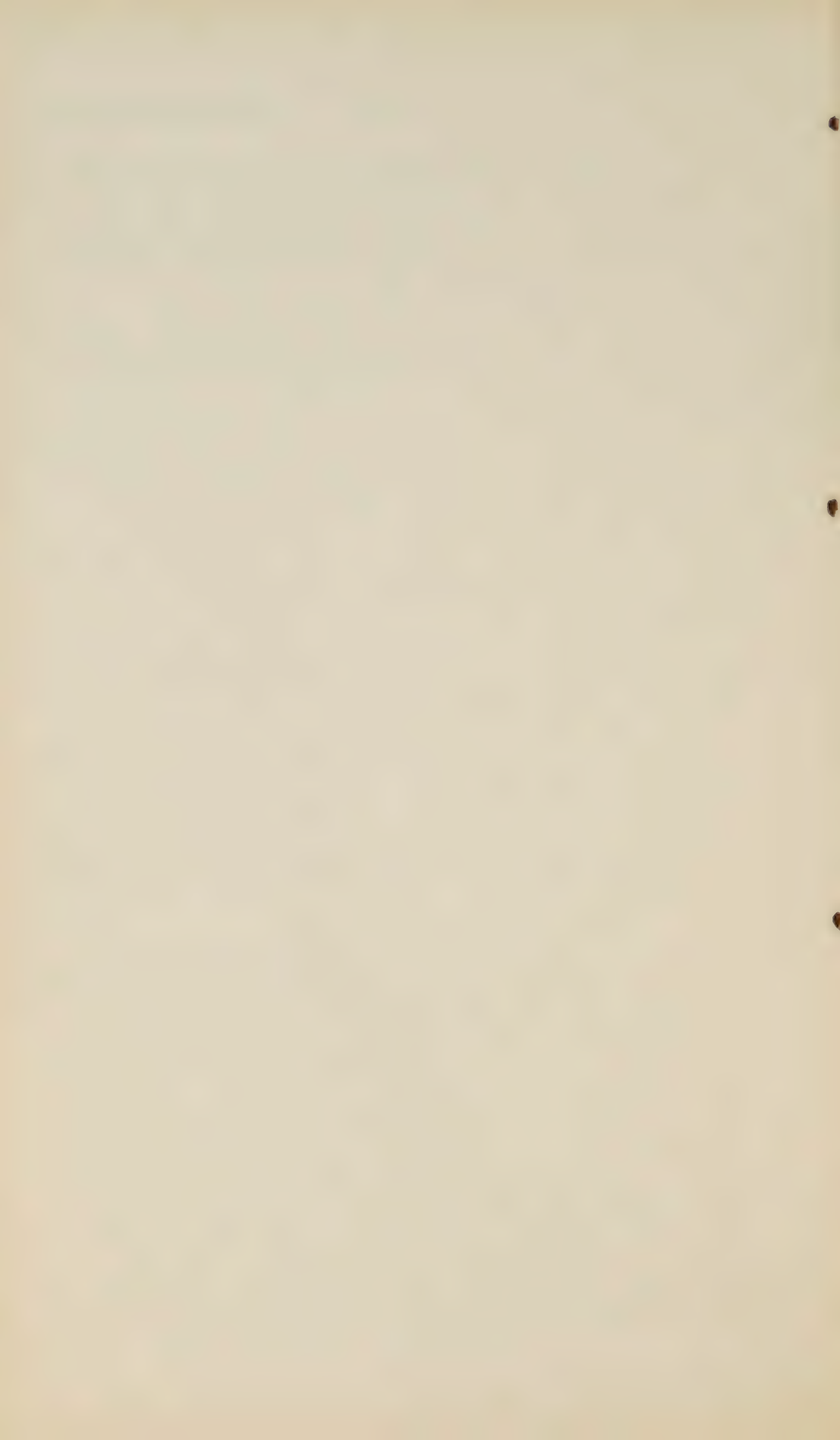


LORD ASHFIELD: Therefore, if the Canadian Pacific said, "No, we are not going to build a branch line into a certain area," this superboard could say to the Canadian National, "Then you build it."

SIR HENRY THORNTON: The board would be the umpire as between the two. I take it that what you have in mind is this: If one or the other railway wanted to build into a certain territory, the super-commission would have to say which railway was going to build the line, or whether or not the line should be built at all. Have I made it clear?

LORD ASHFIELD: Perfectly clear. But I was wondering how you overcome the difficulty which is inherent in the present situation, whereby this board would have behind it in the use of its mandatory power the public purse; whereas in respect to the Canadian Pacific you have only got the shareholders. As I understand it, part of your plan is some adjustment of the capital account of the Canadian National Railways; that is an attempt, I take it, to bring the earning power of the system more nearly into relation with the capital investment?

SIR HENRY THORNTON: Any suggestion I made with regard to the capital structure of the Canadian National Railways might have been made without any reference to this Commission whatsoever; it has nothing whatever to do with the super-commission. It is merely a recommendation that the financial house of the Canadian National Railways be put in an orderly condition. After all, our financial structure is highly disorderly. We have in our capital structure many items which are not capitalizable, ought not to be such. I merely make the suggestion, and I can put it no differently -- that our financial house be put in an orderly state. It has





no effect upon this Commission or the earning power of the company or anything else of that sort.

LORD ASHFIELD: Do you propose as part of your plan that the Canadian National Railways shall be operated on a commercial basis?

SIR HENRY THORNTON: It should always be operated on a commercial basis.

LORD ASHFIELD: Would you make that a sine qua non of your scheme?

SIR HENRY THORNTON: Perhaps we are at variance in regard to terms.

LORD ASHFIELD: On the same basis that the Canadian Pacific must be operated or it would die.

SIR HENRY THORNTON: Again I do not understand how you apply the word "commercial".

LORD ASHFIELD: An adequate return on the capital invested in the railway.

SIR HENRY THORNTON: Oh no. Insofar as the revision of our capital structure is concerned, the fundamental principle is that the funded indebtedness of the company should only be represented by the money which has actually gone into the property. For instance, I do not regard money which has been paid to make up operating deficits in years past as a properly capitalizable item.

LORD ASHFIELD: Quite true.

SIR HENRY THORNTON: Then it will have to stand or fall on that basis, as the case may be. There have been, I might say, two objections expressed to the revision of our capital structure: That the capital of the company might be reduced to such an amount that it would excite either demands for reduced freight rates, or demands for increases in wages.





Now, it does not seem to me, so far as theoretical finances are concerned, that those two objections have not really anything to do with it. You have got to pay the going wage to your men; and whether you are capitalized high or low you cannot charge more than certain freight rates unless you kill the traffic. So I have never been able to see how those were factors in the situation. I can put it this way: I am only asking for an orderly financial house. For instance, our accounting expenses are very high because we have so many different kinds of securities and corporate entities to maintain. I want to see if I cannot reduce to an orderly condition all that sort of stuff, so that little by little we can work away from it.

THE CHAIRMAN: You are using the term "capital structure" with a rather broad intent, I fancy?

SIR HENRY THORNTON: Yes.

THE CHAIRMAN: You mean that in the organization of the whole system you have innumerable companies, --

SIR HENRY THORNTON: I really do not know how many we have.

THE CHAIRMAN: -- and you have all kinds of overlapping securities. The accounting must be extremely complicated. I suppose you have in mind putting it on such a basis that ordinary people can understand it.

SIR HENRY THORNTON: You have expressed extremely well just what I have in mind.

LORD ASHFIELD: You prefaced what you had to say this afternoon by referring to political and public pressure upon an undertaking constituted as is the Canadian National Railways. I confess it is difficult for me to follow your argument in relation to this proposed board unless there is some



limit placed upon the powers which it may exercise. Why do you think public or political pressure would be less under your plan than what it is today? Let me go a stage further. Unless those responsible for the management of the Canadian National have some restriction put upon them as to what the railway system can earn in relation to its capital, and the Canadian National through pressure by the government was prepared to do certain things, would it not place the Canadian Pacific -- which would be a partner in this arrangement -- at a very serious disadvantage? Is it not conceivable that under your plan the government might desire certain things done, things which in themselves would not pay, and which the Canadian Pacific by virtue of its financial arrangements would be unable to perform?

By way of illustration let me give you our experience in London. There was a proposal to establish a public board to take over all the undertakings, company owned and government owned. As a fundamental, inherent part of the plan, the public board, vested with responsibility for managing these undertakings, is by Act of Parliament compelled to charge such fares and to operate the services so that their solvency is maintained. In other words, the return upon the capital is fixed, and the board is under statutory obligation to earn that money by charging the fares necessary to do so, and the public have no right to intervene until such time as the board is earning more than the amount that is necessary for that purpose. We have always thought that that was the only safeguard you could devise against public and political interference.

So far as I can judge your plan, it makes no provision whatever for that contingency. In fact it might leave things



in exactly the same position as they are in today, because in the absence of some definite instruction or obligation put upon this board by Act of Parliament, it must depend entirely upon the personnel how the Canadian National Railway system is run. Therefore whatever the Canadian National Railways may do with the consent of this board must react upon the Canadian Pacific, and in turn must of course react upon the obligations which the Federal Government would be required to meet as a result of their investment in this railway system.

SIR HENRY THORNTON: I thought in the proposal I made I was accomplishing precisely the purpose which you have in mind, and which I think is an essential objective to be reached. It was my thought that the super-commission which I have proposed would act as a deterrent to unwise, wasteful capital expenditures.

LORD ASHFIELD: They would not be allowed to make expenditures unless they could be justified by the return on their capital?

SIR HENRY THORNTON: Certainly, that is presumably what the functions of the board would be.

LORD ASHFIELD: You recommend that sort of restriction should be placed upon the commission?

SIR HENRY THORNTON: I think there should be definite restrictions placed upon the capital expenditures of both companies, for after all the credit of the Canadian Pacific is just as much the credit of the people of Canada as is the credit of any one of its banks or of its other great enterprises; and the last thing -- I say this with such emphasis as I can command -- the last thing I should want to see would be anything undertaken which would jeopardize that credit, and I should rejoice in anything that could be done to improve





that credit.

LORD ASHFIELD: Supervision of services and capital expenditures?

SIR HENRY THORNTON: Precisely.

THE CHAIRMAN: Would it really make any difference in principle if you separated the two functions as I suggested before? The board that you are speaking of would exercise functions of two quite different characters; in one role it would be the agent of the people of Canada, looking after the property of the people of Canada.

SIR HENRY THORNTON: Precisely, Mr. Chairman.

THE CHAIRMAN: In another role it would be a subordinate legislative body dealing with these two railways. Now it really would not make any difference in principle if you were to say that the present Board of Railway Commissioners should be reorganized, or that a body similar to it should be appointed, to exercise these regulative functions with respect to rates and so on; and that on the other hand budget and other related matters should be placed in the hands of a board such as you suggest. In either case the virtue of your suggestion would be this, would it not, that you propose an independent body of men, appointed by Parliament, holding office for at least a determinate period of years, we will say holding office by the same tenure as the Judges of the Supreme Court?

SIR HENRY THORNTON: And the longer the better.

THE CHAIRMAN: That is a detail. And you rely upon that quality of independence as the public protection against the kind of importunity, solicitation, and such like pressure that experience shows a publicly owned railway is subject to, a pressure, which apparently seems to be pretty well conceded everywhere, that public men find it impossible to withstand.



That is the virtue of your plan?

SIR HENRY THORNTON: Exactly, Mr. Chairman.

LORD ASHFIELD: You would give this superboard powers to enforce their directions?

SIR HENRY THORNTON: Certainly, my Lord. It is no good appointing a commission of this sort unless a stick of dynamite is placed in one hand and an axe in the other.

THE CHAIRMAN: That raises a question upon which, I understand, there has been some controversy in the States -- Mr. Loree is familiar with this; I know only the alphabet of it -- that the Interstate Commerce Commission acts as prosecutor, as judge, and as executioner -- all at the same time.

SIR HENRY THORNTON: Apparently they do.

THE CHAIRMAN: That is really not an essential part of your scheme as to the enforcement of orders?

SIR HENRY THORNTON: What you say in criticism of the Interstate Commerce Commission -- Mr. Loree is more familiar with that than any of us -- is perfectly true. Insofar as the interests of the people of Canada are concerned, I think that with such a super-commission as I have proposed they would be as safe as human ingenuity can devise. Of course, it will be obvious to you, Mr. Chairman, and to the other members of the Commission that I have been simply trying to devise a scheme. There is a principle back of this scheme. If someone can think of some better vehicle to bring into being that principle, certainly I would be the last person to raise criticism. I am simply anxious to reach a certain position and to establish a certain principle. The vehicle I propose is the best I can think of; someone may think of a better one.

THE CHAIRMAN: The definition of the fields within



which your supervisory bodies are to act is of tremendous importance.

SIR HENRY THORNTON: Quite so.

THE CHAIRMAN: That is the subject matters they are to deal with. You have expressed those in rather general terms, and I wonder if you could work something out. It is a matter in respect to which the application of railway experience is really very important. There must be many things of ordinary every day work that you must leave in the hands of the board of directors. A railroad cannot be subject to that kind of interference; you cannot have a body like that interfering with them.

SIR HENRY THORNTON: That is precisely where I would draw the line, Mr. Chairman.

THE CHAIRMAN: But what are the subject matters? That goes right to the heart of the thing. I am not suggesting that you have not any principle; the principle is there plainly enough; but in **working** it out it is essential to get at those things to which it would apply.

SIR HENRY THORNTON: That is quite true. I wanted to draw as clear a line of demarcation as was possible between the administration of the Canadian National Railway system in its details, which would be left entirely to its own board of directors; but the determination of its capital budget annually would be in the hands of this superboard. Furthermore, insofar as the relations between the two companies are concerned in the matter of cooperation, that too would be left in the hands of the board to enforce to such an extent as in the judgment of the board seemed to be in the interests of the public as a whole and of both companies.





COMMISSIONER MURRAY: You spoke earlier, Sir Henry, of the initiative of this superboard. Does that apply to both companies? I think generally its function might be described as regulatory and restraining, but you spoke of it initiating certain things.

SIR HENRY THORNTON: That is true. I introduced that deliberately. It can be either put in or left out. Personally I think it would be preferable to give this superboard very wide powers; but that is arguable.

COMMISSIONER WEBSTER: Sir Henry, supposing you could put together these two railways -- I am speaking theoretically -- and make the radical changes which have been suggested, such as tearing out lines here and there, merging passenger and freight terminals, and all the rest of it, would you expect that the economies which could be effected through the action of this mandatory board would in any appreciable length of time approach what you could accomplish by merging the two systems?

SIR HENRY THORNTON: All that would have to be a process of evolution, doctor.

COMMISSIONER WEBSTER: But would you give this board power to order the Canadian Pacific to tear up this line, or the Canadian National to tear up that line, as essential to economy?

SIR HENRY THORNTON: I would be willing to take a chance with a board of this sort. I am proposing a board of very high calibre. If it is of inferior calibre we shall have to limit its powers.

COMMISSIONER WEBSTER: It would have some such power as that?

SIR HENRY THORNTON: That would be my thought.





COMMISSIONER LEMAN: Would it have to exercise certain authority even over the Board of Railway Commissioners? Because they have the power of fixing rates.

SIR HENRY THORNTON: No. My idea would be to leave the present functions of the Board of Railway Commissioners as they are in the matter of freight rates, safety devices, elimination of grade crossings, and a multiplicity of detail matters with which they deal.

COMMISSIONER LEMAN: The Board of Railway Commissioners have the power of altering freight rates?

SIR HENRY THORNTON: Oh yes.

COMMISSIONER LEMAN: Then they might defeat any budget which might be put through by that super-commission.

SIR HENRY THORNTON: They can do that in any case, Mr. Leman. For instance, they can do anything with freight rates tomorrow if they like.

COMMISSIONER LEMAN: So that the super-commission might establish a warranted capital expenditure which by subsequent action of the Board of Railway Commissioners would become entirely unwarranted.

SIR HENRY THORNTON: That is perfectly true. The Board of the Canadian Pacific Railway today might decide upon the construction of a certain line or on some other activity on the assumption that freight rates were to be so and so, and a week or thirty days hence find that it had all been destroyed by some action of the Board of Railway Commissioners. You would be no worse off than you were before.

COMMISSIONER LEMAN: That brings up the question raised by Lord Ashfield -- whether the fundamental basic principle should be commercial operation of the railways.



SIR HENRY THORNTON: That involves, I suppose, the principle that the rates and fares charged for public services should be remunerative; and with that principle no railway man will quarrel.

Page 717 follows.



LORD ASHFIELD: It does not follow, Sir Henry, that the phrase "operating these railways on a commercial basis" necessarily means that the charges shall be on such basis as will produce an income adequate to provide a reasonable return on the capital. What it does suggest is this, that it is the basis for determining whether the railways are efficiently operated or not; and if the burden of such rates and charges imposed by a mandatory body -- and they might be in the interestsof the community as a whole; I will accept that -- should not fall directly upon the railway, it would result in a lack of what seems to me at the moment to be vital in the operation of any undertaking, namely some basis upon which you may know how efficiently you are carrying on your work.

SIR HENRY THORNTON: With that principle again there can be no quarrel. Might I venture -- not as a digression, although it might seem such -- to say this: that as a matter of fact the commercial development of Canada really only commenced about the year 1900, after the time the Canadian Pacific railway was built and the west and the east were connected by adequate transportation veins; and consequently to-day Canada is in a state of progressive development. Without the construction of at least a large percentage of our railway mileage in Canada we could not have made the development that has been made in the last thirty years. We have to face the fact that a very large amount of the capital that has been spent on railways in Canada has been spent for the purpose of developing the country. We are still in that stage of development; it may be fifty years before we get out of it, but the plain fact is that commercially as far as industrial Canada is concerned, Canada is yet a very young





country. Now, in order that that development might continue, the provision of facilities necessarily had to be two or three jumps ahead of the development. That is exactly what happened in the United States west of the Mississippi river; the railway construction took place there with great loss to capital -- all essential for the development of the empire of the west. So that our condition in Canada is not a stationary condition at all; it is a condition which is going to progress year by year and decade by decade, and whether we like it or not we have got to keep up with it -- what is more, keep a couple of jumps ahead of it. Have I made myself clear?

LORD ASHFIELD: Yes, perfectly clear.

SIR HENRY THORNTON: That simply means that the the public -- or perhaps the public is the wrong word; at any rate somebody has to bear the burden of this exploratory work that has been done in the field of transportation.

LORD ASHFIELD: Might I then, on that very point, ask you this question? Taking the two alternatives, first, that of having imposed upon a railway system rates which are not commercial rates and which will not allow the railway to maintain financial solvency but rather result in a deficit being charged against the Government, and second, the payment of a subsidy by the users of this system of transport, a subsidy which would have to be worked out between the government and those responsible for the railways, and a fixed sum paid to the railway company -- which of these two alternatives would you prefer?

SIR HENRY THORNTON: Well, I think it is a sounder principle, and probably comes to the same thing in the long run, to put the transportation companies of Canada in a



position to stand upon their own feet. But I have always said in so far as the Canadian National Railways was concerned that the people could have it one way but not two ways. You either can have low freight rates and more taxes to pay in the way of deficits, or you can have remunerative freight rates and less taxes; but it cannot be done both ways.

COMMISSIONER LEMAN: But the other way would enable the Government to place in its budget a fixed amount within which either or both the railway companies would have to keep their expenditures, thus limiting the liability of the Government.

SIR HENRY THORNTON: That is true.

COMMISSIONER LEMAN: And being in addition a premium to efficient and economical management by either or both of the railways.

SIR HENRY THORNTON: That is right.

THE CHAIRMAN: You spoke a little while ago, Sir Henry, of the practicability of certain fundamental things. May I ask you whether you think a fundamental revision of the rate structure, involving such things, for example, as the abolition of the Crow's Nest Pass principle, and so on, is really a practical thing at the present time?

SIR HENRY THORNTON: Do I think it a practical thing?

THE CHAIRMAN: Yes.

SIR HENRY THORNTON: Well, that is a matter of judgment, Mr. Chairman. I should think the answer to that would probably be in the negative.

THE CHAIRMAN: In point of fact, your rate structure has been determined by an independent tribunal, the



Board of Railway Commissioners, and we must assume that they worked out a principle upon which the rates would be considered fair and reasonable, subject to this statutory situation, which undoubtedly has complicated the thing enormously.

SIR HENRY THORNTON: I think the whole freight rate structure, in so far as that aspect of it is concerned, was a lot of very indifferent poker playing on the part of a number of individuals. I think what you have in your mind is this, Mr. Chairman: that there is no good having a perfectly sound theory unless it can be brought into existence; if you cannot bring it into existence there is no good talking about it.

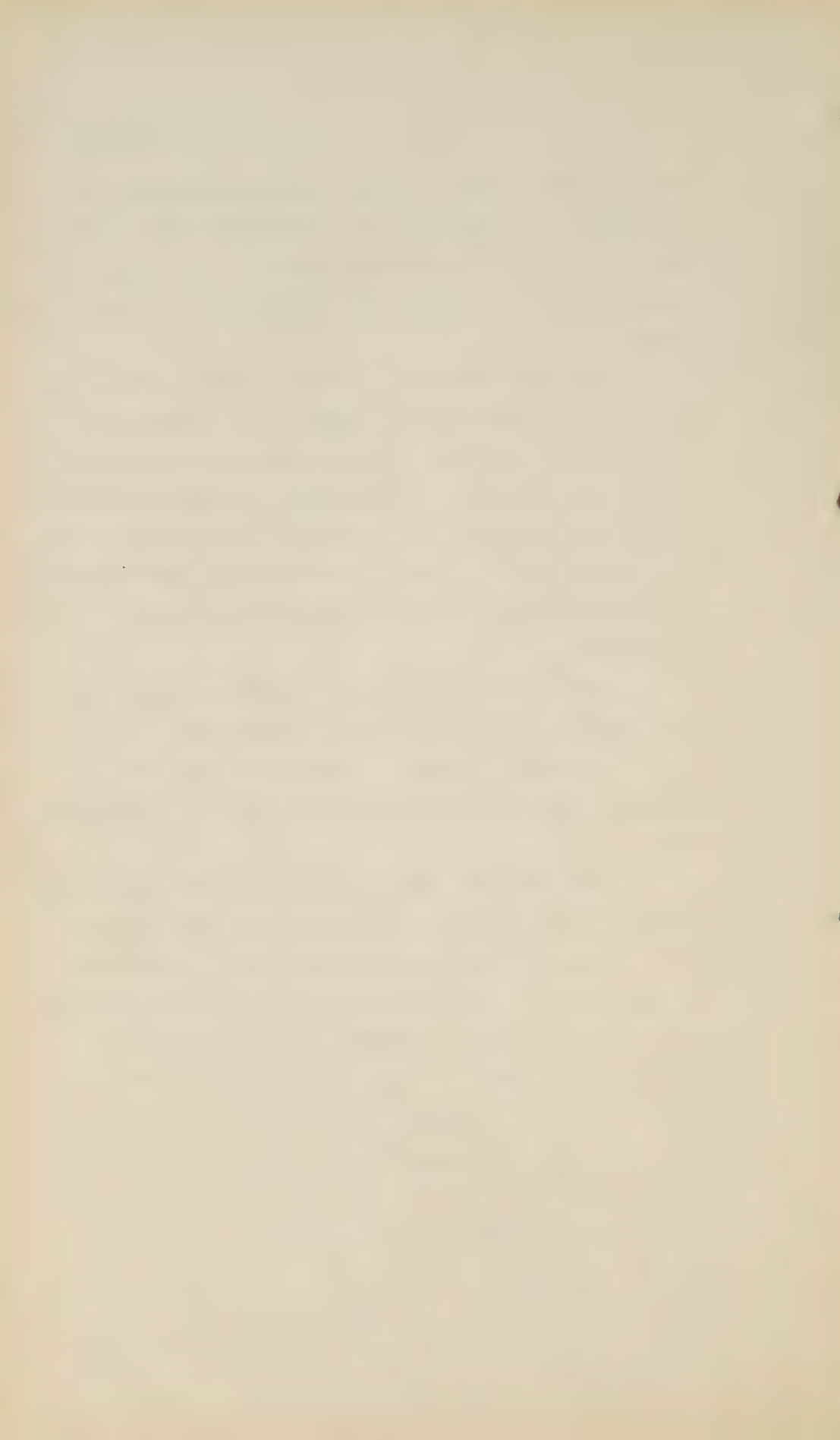
THE CHAIRMAN: Oh well, I should not like to say that, because I enjoy a theoretical discussion.

SIR HENRY THORNTON: I enjoy them too, but the difficulty is to translate them into practical possibilities.

LORD ASHFIELD: May I ask you this question -- and again it is only a matter of your own personal opinion: Have you ever considered the advisability or desirability of having what you call your rate structure based upon the market price of certain commodities -- I am thinking particularly of wheat? Have you any views on that?

SIR HENRY THORNTON: I think it impracticable. I can give you a memorandum on the subject if you would like to have it.

LORD ASHFIELD: I wish you would. In Cuba, as you will remember, the freight rates are determined on the market price of sugar, the rate rising and falling as the price of sugar rises and falls, within the limits of a





certain maximum and minimum. In theory there seems to be some advantage in this method; in practice, as you say, it may be quite a different matter.

SIR HENRY THORNTON: In theory it is an admirable doctrine; but I will give you a memorandum on that subject.

COMMISSIONER MURRAY: Did your memorandum take into account the question of volume as well as price?

SIR HENRY THORNTON: No, it did not. On the other hand the volume would probably never fall so low or be so high as to be a factor.

COMMISSIONER MURRAY: It is about half now what it was three or four years ago -- in grain, for example.

SIR HENRY THORNTON: That is perfectly true, Doctor, but I question if that would be a factor. Of course there is the law of increasing returns; we know perfectly well that if a railway has a certain volume of traffic it can charge lower rates and make money. After all, density of traffic is the large factor in the economics of any railway problem. One of the things which cursed the Canadian National railway -- and it is a real curse -- is our low density of traffic, which again is due to the fact that a large percentage of our mileage is still in its development stage, and so is the country which it serves.

LORD ASHFIELD: At the end of your memorandum, Sir Henry, you rather summarized your proposals under certain items, all of them involving more or less the pooling of facilities, telegraphs, hotels, city ticket offices, terminals. Perhaps it can be summarized in this fashion: that so far as all the facilities of the railways are concerned, whatever they may be, even the rolling stock, you





propose that if there be advantage in it they be pooled.

SIR HENRY THORNTON: Yes, wherever money can be saved.

LORD ASHFIELD: Therefore all that would be left to the initiative of these separate organizations as I see it, would be the intense rivalry in using those facilities to the best possible advantage.

SIR HENRY THORNTON: It might be described as taking the fangs out of competition.

LORD ASHFIELD: So far as facilities are concerned, I gather there will be no competition under your plan; that disappears entirely?

SIR HENRY THORNTON: It might just as well.

LORD ASHFIELD: Do you agree on that? It is rather important.

SIR HENRY THORNTON: Well, it depends on what you mean by important, my lord.

LORD ASHFIELD: I think it is vitally important, whether you are going to have competitive systems in Canada, or a system working not only in close cooperation but in compulsory cooperation.

SIR HENRY THORNTON: And competing only in excellence of service.

LORD ASHFIELD: But I thought those were to be pooled.

SIR HENRY THORNTON: Oh no; you cannot pool the courtesy of conductors. You cannot pool the punctuality of passenger trains. You cannot pool excellence of track. You cannot pool all of those things which enter into the comfort of the passenger or the speed and convenience with



which freight is moved.

LORD ASHFIELD: Do I gather that your plan does provide for unrestricted publicity on the part of the Canadian Pacific and the Canadian National? Would you be free to exploit the disadvantages of your partner through publicity?

SIR HENRY THORNTON: We have never done so.

LORD ASHFIELD: I wonder, then, what the advantage of publicity is.

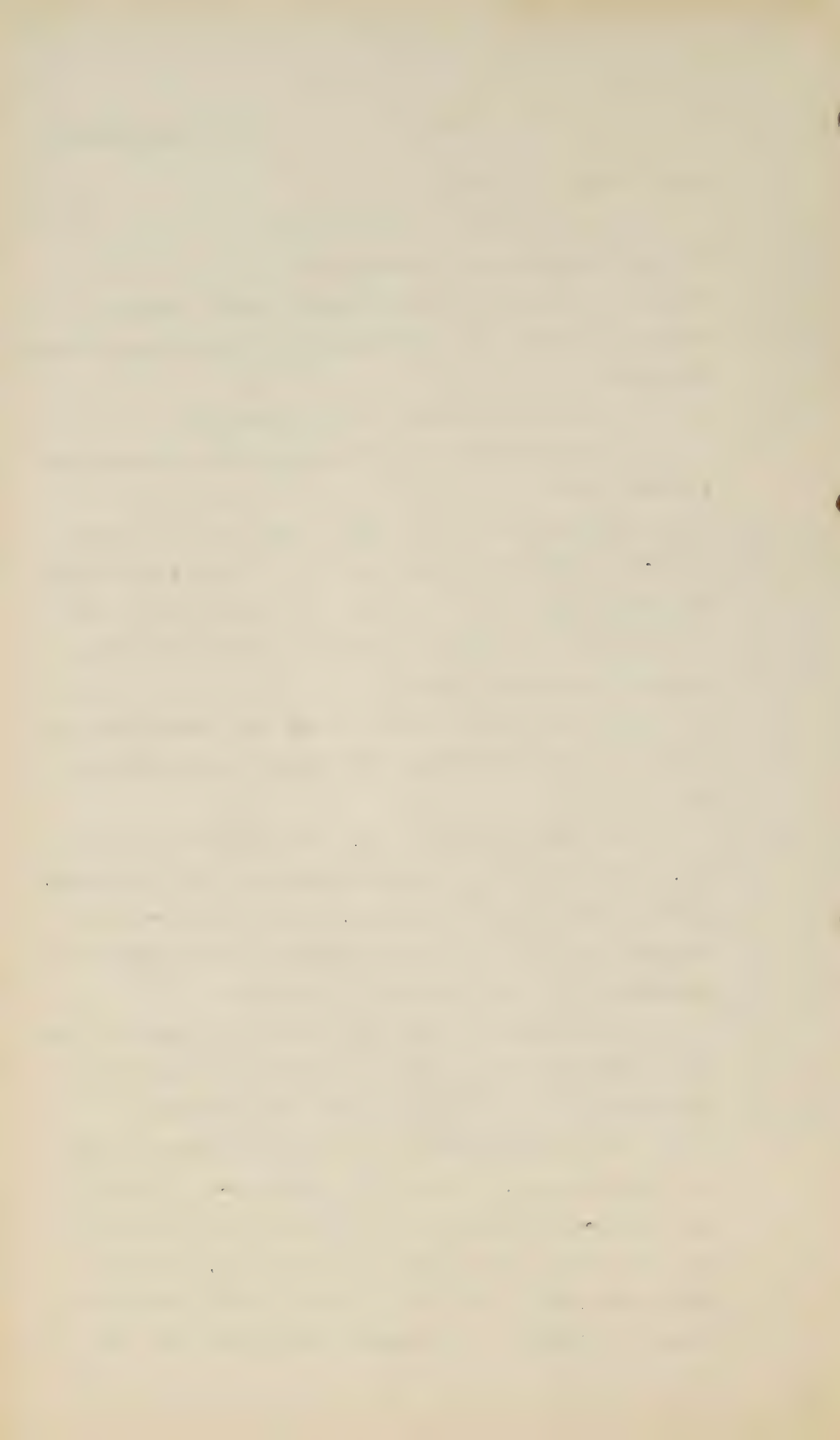
SIR HENRY THORNTON: Very simple -- no one knows that better than your lordship. It is the exposition of your own virtue. I do not know of anybody who has more alluringly placed before the people of London the advantages of bus transportation.

LORD ASHFIELD: I agree we do, and perhaps to some extent it is by comparison. Our friends say we over-do it.

SIR HENRY THORNTON: Oh, I do not think you do at all. In fact I do not think you have told half the story. As far as publicity is concerned, I should say that any individual who plays upon the disability of his competitor eventually incurs the contempt of the public.

LORD ASHFIELD: I rather thought you suggested that if the Canadian National had a more courteous staff than the Canadian Pacific, it might have some advantage.

SIR HENRY THORNTON: No, that is not what I said, if I may interject. I said that courtesy on the part of the conductors, on the part of those who come in contact with the public, is a thing to be encouraged, and is a competitive feature which can be made a useful implement. I have no doubt that the Canadian Pacific will take ad-



vantage of any opportunity which such an avenue revealed, and quite justifiably so.

LORD ASHFIELD: And vice versa.

SIR HENRY THORNTON: Precisely. But we certainly would not say our conductors and those who came in contact with the public were more polite than anyone else; we leave it to the public to draw their own conclusions as to that.

COMMISSIONER LEMAN: May I suggest, Sir Henry, that your statement as I understood it involved a pooling of passenger traffic?

SIR HENRY THORNTON: Yes.

COMMISSIONER LEMAN: Could you conceive that under a pooling arrangement there could be a substantial difference between the service provided by one railway line and that provided by the other?

SIR HENRY THORNTON: Not very much, Mr. Leman. You are quite right.

COMMISSIONER WEBSTER: May I ask you a practical question in that connection?

SIR HENRY THORNTON: Please.

COMMISSIONER WEBSTER: The pooling of ticket offices, say, would result in an important saving. How would you regulate the sale of tickets in those offices? For instance, would you have one man selling both sets of tickets, or would you have a Canadian National and a Canadian Pacific man?

SIR HENRY THORNTON: Have one man selling both tickets.

COMMISSIONER LEMAN: If so, would he not be likely to favour one or the other?





Sir Henry Thornton

SIR HENRY THORNTON: If you pooled your gross revenue it would not make much difference which way you travelled.

LORD ASHFIELD: I am sorry to pursue this so persistently, but after all this scheme of yours comes from such a high source that we are bound to give it serious consideration. My impression at the moment is that your scheme is nothing more or less than a complete fusion of the interests of the two railways; that is the impression that is formed in my mind as a practical proposition. Have I gone too far?

SIR HENRY THORNTON: Yes, I should think that you had.

LORD ASHFIELD: I wish you would disclose to what extent, because all my experience leads me in that direction. The more I talk about it and the more I think of it, the more strongly I am convinced that in the end it comes to that, inevitably.

SIR HENRY THORNTON: We still have our separate corporate entities. We still serve different parts of the country, in many cases common points.

LORD ASHFIELD: Would there be much of that? Would there be much that would not be competitive?

SIR HENRY THORNTON: Oh yes, quite a fair amount that would not be competitive.

LORD ASHFIELD: There would be quite a large amount?

SIR HENRY THORNTON: We would still be left to pursue technical progress of different sorts -- the development of better and more economical motive power; the provision of better and more comfortable coaches; the attainment of greater punctuality in both passenger and freight services -- all of the thousand and one things which enter into the



desirability of one road as compared with another.

COMMISSIONER MURRAY: Do you include the pooling of freight as well as of passenger service?

SIR HENRY THORNTON: Well, Doctor, that is a hard question to answer offhand. I do not think it would be practicable to pool freight services, but it is a subject that would be well worth investigating. I do not think, however, it is a practical proposition.

THE CHAIRMAN: Well, if you pool both services, that would be an end of anything like practical competition.

SIR HENRY THORNTON: I do not think it can be done, Mr. Chairman.

THE CHAIRMAN: But if you did that would be an end to anything like practical competition -- or would it; I am putting this as a question.

SIR HENRY THORNTON: I think it would be pretty much the end.

LORD ASHFIELD: I am bound to say I thought your plan did involve the pooling of both freight and passenger services.

SIR HENRY THORNTON: Oh no.

LORD ASHFIELD: Only passenger services?

SIR HENRY THORNTON: Only passenger services. I suggested the pooling first of competitive passenger services, which I think myself is about as far as you can go; but I did mention the possibility of pooling all passenger services. But that was only suggested -- the chairman and members of the Commission will pardon me if I say that what I have said has been rather general in character, for the purpose of crystallizing discussion.



LORD ASHFIELD: When you referred to the joint use of tracks and terminals, I thought you had in mind freight as well as passenger service.

SIR HENRY THORNTON: No, there might be some cases where it would not be practicable to pool terminals; in other cases it might be.

LORD ASHFIELD: I think Mr. Fairweather has said to us that very substantial economies could be effected in certain cases by making them joint.

SIR HENRY THORNTON: Yes, I think that is probable.

COMMISSIONER LEMAN: You would not have inter-switching charges, for instance, if you pooled; and then there would be the other charges which you would have for local freight which is to be turned over from one line to the other.

SIR HENRY THORNTON: Well, we would pool and co-operate wherever a nickel could be saved.

LORD ASHFIELD: You could not have waste in your freight services and economies in your passenger services; that would be a very inconsistent position, wouldn't it?

SIR HENRY THORNTON: Of course passenger services in Canada are as a whole unremunerative.

LORD ASHFIELD: The figures indicate that they are disastrous.

SIR HENRY THORNTON: We would be very much better off if we did not run a single passenger train mile in Canada as far as the Canadian National is concerned, but of course that is an absurdity; you cannot contemplate anything of that sort.

THE CHAIRMAN: With regard to the joint use of



terminals, and referring to Vancouver simply as an example, some allowance would have to be made, I suppose, between the railway companies for the use by one of the other's facilities. I was wondering whether these things, so far as you have considered any, would cancel one another out.

SIR HENRY THORNTON: Well, it would involve some such consideration as that, unless some compensating feature could be found at some other point. The plain fact is that the Canadian Pacific are firmly entrenched in Vancouver, and the Canadian National keeps pounding away year after year, little by little, trying to get a switching line here and a dock there; we keep pounding and pounding away, and little by little we begin to make an impression. But all of that costs money. Now, there is probably some reasonable adjustment of that situation which can be reached without undue damage to the Canadian Pacific; and at some other place perhaps the position can be reversed.

COMMISSIONER WEBSTER: You would leave that to the super-board?

SIR HENRY THORNTON: That would be my idea; somebody has to do it. You see, it is one thing to build to a community but it is quite another thing to build into it. Mr. Loree will recall, as I do, the attack which the Wabash railway made on Pittsburgh. They proceeded to build to Pittsburgh, and what they were going to do to Pittsburgh was simply left to the imagination. Well, they built up to Pittsburgh, but they never built into Pittsburgh, and the upshot of it was they wrecked the company before they were done with it. I remember the view that





was expressed on the part of some of the Pennsylvania officials -- that the worst thing the Pennsylvania railway could do would be to allow the Wabash to go ahead. But it is one thing to build to a community; it is a very different thing to build into it.

COMMISSIONER LOREE: To pursue that a little further, assuming that relations could be worked out that would be satisfactory so that the interests of the two companies would be the same in volume, could the territory west of Calgary and Edmonton be operated in their joint interests by an officer located say at Vancouver, to advantage?

SIR HENRY THORNTON: I do not think so, Mr. Loree. It has been suggested that Canada's railway system might be split on a north and south line at various points. My feeling about that is that it would localize all of the disadvantages of a monopoly but secure none of the advantages. I do not believe that would be a practicable proposition.

COMMISSIONER LOREE: The same thing would be true of the Maritime provinces, east of Quebec?

SIR HENRY THORNTON: I think so. I do not think you could do it.

COMMISSIONER LOREE: The same would be true of that stretch of territory between the junction point east of Winnipeg and Ottawa?

SIR HENRY THORNTON: As far as that is concerned, it is either whole hog or nothing, as I see it.

COMMISSIONER LOREE: I had in mind a situation with which you are familiar, Sir Henry: seven roads center-



ing at Washington and Richmond own jointly the Richmond, Fredericksburg and Potomac road, to the advantage of each. Two of the lines go south to Washington and stop there; five go north to Richmond and stop there, and they own jointly the intervening line. I was wondering whether something of the kind could be worked out here.

SIR HENRY THORNTON: I think the road to which you refer is more an arterial railway connecting certain southern railways with certain railways radiating to the north.

COMMISSIONER LOREE: That would be true of the mountain territory.

SIR HENRY THORNTON: I think the measure of cooperation you have in your mind there could be reached by our making some arrangement with the Canadian Pacific for the use of our low mountain grades, which we have already proposed to Mr. Beatty; I do not know whether they are still considering it or not. But my thought was that they could turn over to us certain of their traffic which originated in northern Canada; we could take it at Edmonton and haul it on agreed rates to Kamloops or somewhere in there, and then turn it back to the Canadian Pacific, giving them trackage rights or making any arrangement at all which would save us both money.

COMMISSIONER LOREE: The Canadian National and the Canadian Pacific own jointly the line north of Edmonton?

SIR HENRY THORNTON: The Alberta railways, yes.

COMMISSIONER LOREE: Do you find that disadvantageous in its operation?

SIR HENRY THORNTON: No, it works quite satisfactorily. But that again was the result of a pretty poor



brand of poker on the part of both of us. One or the other of us ought to have had it, and neither of us got it, so we decided we would divide the loaf. But that is a different situation; these are development railways; there is no competitive interest involved. It is relatively a simple proposition.

COMMISSIONER LOREE: Of course the competitive interest would disappear if you were the joint owners.

SIR HENRY THORNTON: West of Calgary?

COMMISSIONER LOREE: Yes, and Edmonton.

SIR HENRY THORNTON: I do not see, Mr. Loree, where we gain anything by it. I think we can get the same result through a greater degree of cooperation.

COMMISSIONER LOREE: The feeling has been that those efforts at cooperation have always broken down. I have been through several of them myself.

SIR HENRY THORNTON: Well, they are a good deal like prayer, Mr. Loree. One prays vociferously on one's knees and then preys on one's neighbours. These pious thoughts with respect to cooperation, unless some instrumentality for enforcement is provided, are mostly lip service for the purpose of deceiving the public or somebody else.

COMMISSIONER LEMAN: They last during a period of stress, and after that they disappear.

SIR HENRY THORNTON: When you are ill you are always willing to obey the doctor's orders.

LORD ASHFIELD: Sir Henry, possibly these are not exact figures; I have taken them out during the last few days, but subject to their being correct your statement





shows capital expenditure from 1923 to 1930 of something over \$370,000,000.

SIR HENRY THORNTON: That is right.

LORD ASHFIELD: I have not the Canadian Pacific railway figures for the same period, but I have taken them from 1921 to 1930; all the statistical returns they gave us were based on that period. Yours were based on a different period, nevertheless these will serve my purpose. Their statement shows that on railways they spent in that period from 1921 to 1930 over \$219,000,000, and on miscellaneous properties, whatever that may mean -- I simply take their phrase -- \$149,000,000. So that they have expended about \$368,000,000 in that period and you have an expenditure of \$370,000,000.

SIR HENRY THORNTON: More or less the same.

LORD ASHFIELD: Yes. Subject to these figures being correct, would it be possible for your very excellent staff to give some indication of how much capital expenditure might have been saved in that period had this scheme you have adumbrated this afternoon been then in effect?

SIR HENRY THORNTON: Yes, it has already been submitted. It just came in to-day, my lord.

LORD ASHFIELD: Just one other question or two on figures, to get my own notes straightened out, if Mr. Fairweather would bear it in mind, or perhaps you could answer it at once. I notice in your report on accounts for the year ending December, 1930, you have an item, loans from the Dominion Government, \$604,000,000, and the interest accrued on the loans from the Dominion Government amounts to \$32,000,000.. There is a further item of interest



accrued on the bonds held by the public of over \$50,000,000. What I am not clear about is how much, if any, of this \$50,000,000, or, if any, of the \$32,000,000, is included in the \$604,000,000. I will leave it there, if you can let me have a reply some time.

MR. FAIRWEATHER: We shall be glad to take that under advisement.

SIR HENRY THORNTON: We can get that.

LORD ASHFIELD: Without that we cannot arrive at an exact figure with respect to your investment in railway properties.

I was very much interested to read a report prepared by a joint committee of the two railways dealing with the question of road services. It is a voluminous report, and all that I want to ask you about it now is this -- as I understand it, that report was sent to yourself and to Mr. Beatty; it was, as I say, a report by a joint committee of the two railways.

MR. FAIRWEATHER: My lord, are you referring to one submitted to the Chairman of the Commission recently?

SIR HENRY THORNTON: I think you mean the report in connection with highway competition.

LORD ASHFIELD: Yes, road services.

SIR HENRY THORNTON: Yes, I remember that.

LORD ASHFIELD: It is a report to the railways?

SIR HENRY THORNTON: Yes.

LORD ASHFIELD: It must be a report to the railways, because it is a recommendation from the members of this committee indicating the policy which the railways should pursue on this question of road traffic, road ser-



vices.

SIR HENRY THORNTON: Precisely; I remember it.

LORD ASHFIELD: Are you going to make some report to the Commission on that report?

SIR HENRY THORNTON: No, not unless the Commission indicates a desire for some form of report. That report was sent to the Commission as indicative of the consideration which the two railways were jointly giving this question of highway competition.

LORD ASHFIELD: I am afraid I have not had an opportunity of discussing this matter with the Chairman and my colleagues on the Commission; but the report as it is at the moment is only a report to the chief executives of both railway systems.

SIR HENRY THORNTON: That is true.

LORD ASHFIELD: And of course that report is subject to any modification which those chief executives might desire to make upon it. I think the Commission would at some stage ask you and Mr. Beatty to say whether that report does reflect your views on this very important matter. They make a recommendation that is of such vital importance to the railway in one particular that we shall ultimately want to know whether you endorse it or not.

SIR HENRY THORNTON: I can say this, that that report as submitted to myself does carry my individual approval, and I would suspect, although I cannot speak with any degree of assurance, that it would likewise carry the approval of Mr. Beatty. But if this Commission addresses to me the question of what sort of recommendation the two railways would make jointly on this matter, then I would



have to say I should consult with Mr. Beatty and we would present a subsequent report. Have I answered the question?

LORD ASHFIELD: For the moment, yes. Have you any committee of your own or any joint committee of the two systems dealing with the question of water-borne traffic?

SIR HENRY THORNTON: No, we have no such committee.

LORD ASHFIELD: There is none at the moment?

SIR HENRY THORNTON: Not at the moment, no.

LORD ASHFIELD: Is any document or memorandum being prepared for the Commission on this question?

SIR HENRY THORNTON: Have you prepared anything, Mr. Fairweather?

MR. FAIRWEATHER: Nothing yet.

COMMISSIONER LEMAN: Is there any report, Sir Henry, as to terminal facilities in Montreal?

SIR HENRY THORNTON: No. Perhaps if you tell me just what you have in mind --

COMMISSIONER LEMAN: I do not know where I gathered the impression that some joint study was to be made of terminal facilities in Montreal.

SIR HENRY THORNTON: Well, Mr. Beatty and I have had certain discussions with respect to that general situation, and we have each selected our engineers with the understanding that the two would select a third, who would review the Montreal terminal situation and make some recommendation to both companies in connection with it. Our difficulty has been to fix upon the third member of the committee, but that is likely to develop within the next few days.

THE CHAIRMAN: How soon, Sir Henry, is that likely





to be available? I mean the results; I am not speaking so much of the formal report.

SIR HENRY THORNTON: I would rather you would speak to Mr. Beatty about that and see what his views are. I do not know myself how soon such a report could be prepared.

COMMISSIONER LEMAN: I think, Mr. Chairman, you were rather expecting a report on that situation, if I am not mistaken.

THE CHAIRMAN: There was something said about it; I do not think there was any undertaking to give us a report.

COMMISSIONER LEMAN: On broad general lines, Sir Henry, you would consider that the public, whenever it is possible and feasible, prefers joint facilities in the way of passenger stations and freight stations?

SIR HENRY THORNTON: I think that is generally a fact, Mr. Leman. It generally is more a matter of public convenience than otherwise. It is an academic question which can only be answered by an academic affirmative.

COMMISSIONER LEMAN: From a practical point of view, are joint terminal facilities not preferable?

SIR HENRY THORNTON: Terminal facilities are the most expensive luxuries on which railways are compelled to embark. My own feeling as a professional transportation man is this, that wherever terminal facilities can be made joint, money is saved by the railways and greater convenience furnished to the public; although it may happen that in some cases, like Vancouver, where one railway has the great predominance of facilities, that is



not always a fair way of dealing with the situation. Broadly speaking, I can only repeat that wherever joint terminal facilities can be arranged, the railways save money and the public profits in convenience.

COMMISSIONER LEMAN: Both for pasenger and for freight?

SIR HENRY THORNTON: Yes.

LORD ASHFIELD: I wish to ask a question on finance. Has any plan been worked out for dealing with these bonds as they fall due for payment -- the car trust certificates -- beyond the ordinary budget arrangement.

SIR HENRY THORNTON: The car trust notes amortize themselves automatically within the period of the loan.

LORD ASHFIELD: How?

SIR HENRY THORNTON: Through the setting aside of a certain amount per annum. Isn't that the case, Mr. Fairweather, with respect to most of our car trust certificates?

MR. FAIRWEATHER: Hardly, Sir Henry. Of course there are two types of this equipment trust, one in which a sinking fund is established, which is administered by a trustee, but most of our equipment trust notes are of a serial maturity type, and in that case the money for the retirement of the notes as they fall due is found in our budget each year.

SIR HENRY THORNTON: The ordinary run of borrowings that we have made in the money markets do not provide for any amortization or anything of that sort; when the term of the loan expires it is either paid off or renewed.

THE CHAIRMAN: But with regard to the second type, did I get an entirely wrong impression -- this equipment is paid off by instalments?



MR. FAIRWEATHER: The equipment, sir, is paid for in a lump sum out of the proceeds of the equipment trust notes which are sold to the public, and then these equipment trust notes are serially retired, so many each year.

SIR HENRY THORNTON: Does that answer your question?

LORD ASHFIELD: Yes; and failing an adequate income from the railways, the burden falls upon the government?

SIR HENRY THORNTON: Precisely.

LORD ASHFIELD: You have no reserve funds at the moment to meet that situation?

SIR HENRY THORNTON: No.

THE CHAIRMAN: You could develop a little more in detail, could you not, Sir Henry, your suggestion as to the powers to be vested in your board? I think that would be a convenience, if you could.

SIR HENRY THORNTON: Well, we could do that.

THE CHAIRMAN: We are much obliged to you, Sir Henry; I think that will be all for this afternoon, but we shall probably have to have some further discussion with you on these subjects.

SIR HENRY THORNTON: I am quite at the disposal of the Commission at any time. Might I just ask this, as a matter of convenience; will you want me to-morrow?

THE CHAIRMAN: I do not think so, Sir Henry.

SIR HENRY THORNTON: Merely that I may know what my movements will be.

THE CHAIRMAN: No, not to-morrow.

SIR HENRY THORNTON: Thank you.





THE CHAIRMAN: Mr. Hungerford, you have had much experience with railways in this country; would you give us your views on the matters that have been touched upon this afternoon?

MR. HUNGERFORD: Mr. Chairman and gentlemen, I am not at all familiar with the character or extent of the information that has been furnished to your Commission, and it would be very helpful if you could suggest some of the topics you would like me to discuss. If there is any particular phase of it that you would like me to deal with, I shall be pleased to do so.

THE CHAIRMAN: I think we would like to hear from you on the subject Sir Henry has just been discussing -- the possible pooling of passenger services and the savings that might be effected by cooperation in respect to joint facilities, and so on.

MR. HUNGERFORD: I do not know that my list corresponds exactly with that submitted by Sir Henry, but in general it covers the same items.

With regard to pooling passenger train services between competitive points, I would like to point out that a great deal of the service on the two lines is not of a competitive character. It certainly is as between the larger points throughout the country, but there are a great many intermediate points between the competitive termini where the lines are in no sense competitive at all.

LORD ASHFIELD: Have you expressed that in value of traffic?



MR. HUNGERFORD: No. I certainly could not do that this afternoon, but it might be done.

LORD ASHFIELD: Would it be 75 per cent that would be competitive and 25 per cent non-competitive, or broadly what would it be?

MR. HUNGERFORD: I would hazard a guess that not more than 25 per cent would be competitive. But I may be wrong in regard to that; that is purely a guess.

LORD ASHFIELD: And 75 per cent non-competitive?

MR. HUNGERFORD: I should think so.

COMMISSIONER MURRAY: What you call local traffic?

MR. HUNGERFORD: Local in a sense, yes. It would be a matter of considerable difficulty, of course, to determine the exact proportion between the two.

LORD ASHFIELD: Your total passenger traffic in a year is how much?

MR. HUNGERFORD: For the all-inclusive system the passenger revenues in 1929 were \$38,338,000.

LORD ASHFIELD: \$38,000,000, Canadian National Railway System?

MR. HUNGERFORD: Yes sir. In 1930 it had dropped to \$32,331,000.

LORD ASHFIELD: And according to your estimate, about \$8,000,000 of traffic would be competitive traffic?

MR. HUNGERFORD: That is purely an estimate, my lord.

LORD ASHFIELD: Perhaps you will give it accurately later on.

MR. HUNGERFORD: I think we can formulate something with reasonable accuracy.



LORD ASHFIELD: \$8,000,000 of traffic is not a great deal for the purposes of pooling to effect economies, is it?

MR. HUNGERFORD: No, but still it is an item. You may be interested to know that there has been a considerable amount of cooperation between the two companies already, and we have still been able to maintain the competitive principle. I do not know whether or not you have been informed of this before but, for instance, a subsidiary of the Canadian Pacific Railway, the Dominion Atlantic Railway, uses the facilities of the Canadian National at Halifax and Truro, Nova Scotia. The Canadian Pacific uses to a considerable extent the passenger facilities of the Canadian National at St. John, Ottawa, Brockville, Belleville, Humboldt, Prince Albert and North Battleford. The terminal facilities of the Canadian Pacific are used by the Canadian National at Quebec City and Regina, and at Toronto the passenger facilities are jointly owned. In addition to that we have running rights over fifteen different sections of Canadian Pacific line, and they have running rights over twenty-three sections of Canadian National lines at the present time.

COMMISSIONER MURRAY: Is the mileage formidable?

MR. HUNGERFORD: The mileage is not very impressive. The Canadian Pacific uses a total of 281 miles of Canadian National lines and the Canadian National railway uses 127 miles of Canadian Pacific line.

LORD ASHFIELD: I am bound to say that I am a little confused now; perhaps you can straighten it out without my asking Sir Henry. I rather gathered from what



Sir Henry said this afternoon that over a period of years, through cooperation in respect to passenger services, there might be a saving of \$60,000,000 a year.

SIR HENRY THORNTON: No -- may I interrupt? I did not say that.

LORD ASHFIELD: What was the \$60,000,000?

SIR HENRY THORNTON: I said that if the two railways were amalgamated, it had been estimated that in theory there could be a saving of \$60,000,000 produced, which would come in in the first year and proceed to a maximum within five years. That was a theoretical figure which the statistical departments of the two railways, I understand, had agreed upon.

THE CHAIRMAN: Then I think you also said, referring to certain items of cooperation, that if these were pursued there would be a saving of \$30,000,000 for the two railways.

SIR HENRY THORNTON: Precisely, Mr. Chairman.

THE CHAIRMAN: About sixty per cent for the Canadian National?

SIR HENRY THORNTON: That is right.

THE CHAIRMAN: This would be accomplished in a minimum of three years, perhaps running on to five years -- that was it, wasn't it, Sir Henry?

SIR HENRY THORNTON: Precisely, Mr. Chairman.

THE CHAIRMAN: Have we had any estimate of the saving? I think we had a figure from Mr. Fairweather of \$2,000,000, wasn't it, Mr. Fairweather, on passenger co-operation or the pooling of passenger services?

MR. FAIRWEATHER: No sir; I think my personal





estimate of the economies to be produced by a complete pooling of passenger services was about \$7,000,000 a year.

THE CHAIRMAN: But that was pooling both competitive and non-competitive services.

MR. FAIRWEATHER: That was pooling everything, yes.

THE CHAIRMAN: There is no figure as to the results of pooling the competitive services.

MR. FAIRWEATHER: Not distinctly on that basis, sir, no.

THE CHAIRMAN: Have you considered the possibility of pooling freights, Mr. Hungerford?

MR. HUNGERFORD: Not to any great extent. It appears to have such obvious disadvantages that in my opinion at least, it is hardly worthy of serious consideration. It would be extremely difficult and would probably not produce any very desirable results.

COMMISSIONER WEBSTER: What do you mean by disadvantages, Mr. Hungerford?

MR. HUNGERFORD: Well, extensive complication, for one thing. There are certain things that can be done, which have already been mentioned by Sir Henry and Mr. Fairweather, such as a change in the routing of traffic between Edmonton and Kamloops or between Calgary and Kamloops, or where one road or the other has a particularly advantageous line between two given points that are served by both railways. But those conditions are not very numerous, and to a very large extent freight services also are non-competitive. That is to say, a



considerable proportion of the freight traffic on those two systems is non-competitive; it originates at a point not served by the other railway and is destined possibly to a common point.

THE CHAIRMAN: Do you mean the eastern lines?

MR. HUNGERFORD: I suppose that statement applies with particular force to the western country, but it is also true in very large measure in the east.

COMMISSIONER LEMAN: With respect to your estimate, Sir Henry, of \$60,000,000 for the complete fusion, is that on the basis of operating all that is now existing in the way of railway lines, or does it contemplate an abandonment of certain lines duplicating one another?

SIR HENRY THORNTON: Well, it contemplated certain abandonments. It contemplated, where we have two lines between common points, the use of one as a main line and of the second one as a secondary line, or the possible abandonment of the secondary line where feasible.

COMMISSIONER LEMAN: Would it contemplate, for instance, as an example, the abandonment of either the Canadian Pacific or the Canadian National line from Kamloops down the valley of the Fraser river?

SIR HENRY THORNTON: It contemplated the abandonment of 2,434 miles.

COMMISSIONER LEMAN: All told?

SIR HENRY THORNTON: All told.

COMMISSIONER MURRAY: Of that, nearly a thousand is main line -- 988, is it not?

SIR HENRY THORNTON: Of that, 1,115 is main line, 1,035 branch lines, and a smaller mileage, 284, representing thin traffic lines, the total being 2,434 miles.



Sir Henry Thornton  
Mr. Hungerford

COMMISSIONER LOREE: Does that include the line up to Prince Rupert?

SIR HENRY THORNTON: No, that would not be abandoned.

COMMISSIONER LOREE: Is that justified as a traffic line?

SIR HENRY THORNTON: As a traffic producer it does not pay for itself, but it would be impossible to abandon it.

COMMISSIONER LOREE: From a political standpoint?

SIR HENRY THORNTON: And public opinion.

COMMISSIONER LOREE: I do not mean political in the narrow sense, but rather in its broad sense.

SIR HENRY THORNTON: Quite so.

COMMISSIONER LEMAN: There is no abandonment of any of the Canadian National line between Superior Junction and Fort William?

SIR HENRY THORNTON: Mr. Fairweather has the maps here on which he can show you the contemplated abandonments; or perhaps he can point them out on the larger map on the wall so that all the commissioners can see it.

MR. FAIRWEATHER: Starting at the west, there is a small abandonment of parallel lines on Vancouver Island, and nothing else west of the Rockies, the reason being that a study of the operating economies and of the capacities of the lines from Kamloops to Vancouver showed it would be desirable to retain both of them, even if the systems were consolidated, the Canadian National line being a very low grade line, but a single track line and not capable of absorbing the combined traffic in any year





except one of reduced traffic.

COMMISSIONER LEMAN: Could you increase your carrying capacity on that line through electrification?

MR. FAIRWEATHER: This question of electrification is a very complicated one. Sir Henry, when he first came to this country, wished that job on the Bureau of Economics, and we made a very thorough study of it. In the course of that study we could find no place in Canada where a combination of traffic density and low power costs would warrant road electrification. The only place where we could see that it would effect any possible economy was in terminal operation, where it competed against the very inefficient steam locomotive; and just about the time we were getting ready to make a recommendation on that, along came the Diesel electric type of power, which accomplished the same object at much less capital cost. But I can say definitely, after having made a thorough survey of every portion of Canada, that there is no place where electrification is justified from the point of view either of operating economies or of increasing the capacity of an existing line.

COMMISSIONER LEMAN: I understand that your line from Kamloops to Vancouver would not accommodate both your traffic and that of the Canadian Pacific, and a reasonable increase in normal times?

MR. FAIRWEATHER: As a single track line, sir, that is correct.

COMMISSIONER LOREE: How many trains are operated on that line?

MR. FAIRWEATHER: Offhand I could not say. But



I know we looked into it, and counting the Canadian Pacific movement and our own movement, and having regard to prospective increase in traffic, we reached the conclusion that even if you did tear up the Canadian Pacific line you would be under the necessity of replacing it within a comparatively short time, because obviously it would be cheaper to do that than to widen our track to a double track. You gentlemen went over that line and you can realize what would be the cost of widening it to a double track; it is practically an impossible feat from an engineering point of view. Therefore, even under the most extreme degree of cooperation or amalgamation, I would say it would be folly to abandon one of these lines from Kamloops to Vancouver. That is Canada's main artery to the west, and, in effect, it is only a double track artery.

Coming east of the Rockies, in the province of Alberta there are a number of proposed abandonments. One is from Red Deer up to Rocky Mountain House, where the two lines are substantially parallel. Then, north of Edmonton there are some lines -- I am not sure this map is completely up to date, but you can see parallel lines up here, and some of these would be scheduled for abandonment. The line from Camrose to Tofield is scheduled for abandonment. Then there are a number of small ones which I will not bother mentioning, but the substantial one would be from Barlow Junction, near Calgary, to Grainge -- that is a possibility. That is all in Alberta of any moment.

Then, coming into Saskatchewan, the big one is from Saskatoon westward to Unity -- that is all west of



the third meridian. East of the third meridian, there is a piece from Colonsay to Young, and then one of the lines from Regina to Moose Jaw. Then, from Peebles to Maryfield, and also a continuation of one of these lines from Maryfield to Brandon; then portions of lines west of Brandon.

There are substantial abandonments in Manitoba. There is a line from Gladstone to Portage la Prairie, and the cross line from Carberry Junction to Brandon Junction, and one line from Portage la Prairie through Rapid City and west to near the Saskatchewan boundary. East of Portage la Prairie all these lines to Winnipeg are necessary to handle the peak of the grain movement.

COMMISSIONER LEMAN: These are all Canadian National lines?

MR. FAIRWEATHER: Oh no; the classification of these ss between Canadian National and Canadian Pacific lines would be governed entirely by local conditions. This is a purely analytical study of what railway mileage could be abandoned in Canada if you were perfectly ruthless.

COMMISSIONER LEMAN: By both railways?

MR. FAIRWEATHER: By both railways.

THE CHAIRMAN: The present hypothesis is amalgamation, so that there is absolute unity of control; the distinction between the two systems disappears.

COMMISSIONER MURRAY: Even where there is competition would it not be possible to use one line, say from Saskatoon to Unity?

MR. FAIRWEATHER: Certainly, in that case.

COMMISSIONER MURRAY: Joint use of one line.





MR. FAIRWEATHER: But I will say frankly, gentlemen, that this estimate is based on a pretty drastic principle. From the point of view of whether it would be practicable to abandon this mileage --

THE CHAIRMAN: It might seem very drastic to railway people but not so drastic to others. You propose to abandon nothing between Winnipeg and Fort William?

MR. FAIRWEATHER: Oh yes, sir. From Winnipeg to Fort William, one of the lines, the line on the National Transcontinental, would be abandoned out to near Rennie. Then there are a couple of lines in Manitoba that have not been mentioned -- one from Winnipeg down to Morris.

THE CHAIRMAN: That goes south; I am speaking now particularly of the area between Winnipeg and Fort William.

MR. FAIRWEATHER: There would be the line from Winnipeg to Rennie and the line from a point near Port Arthur to a junction point near Raith.

COMMISSIONER LOREE: One is struck, of course, with the multiplicity of lines in that territory. Last week I made some comparison of the mileage in Alberta, Saskatchewan and Manitoba with that in the three American states of Kansas, Nebraska and Iowa. On a meridian of latitude the separation of the lines is about 280 miles from the south line of Kansas to the north line of Nebraska averages about ten miles. Here, from the boundary between Canada and the States and the 55th parallel, which is about the same distance, the average interval is about twenty-seven miles, so that the development in the States was twice as intense. I will file with the Commission to-morrow a memorandum covering that whole proposition.





But in the States there was a period of development of about sixty years as against about thirty in Canada, and that of course has a very significant relation to the increase in population.

MR. FAIRWEATHER: I submitted something on that same line, Mr. Loree, at your request; it is in the exhibits.

Then, proceeding from the head of the lakes, there is a piece from Port Arthur to Nipigon where the lines are substantially parallel. That would complete the abandonments in western Canada.

THE CHAIRMAN: As far east as what point?

MR. FAIRWEATHER: As far east as Nipigon.

THE CHAIRMAN: Nothing on the Transcontinental at all?

MR. FAIRWEATHER: No sir, nothing of the Transcontinental east of Rennie. When we looked into it we found that the station earnings and the degree of settlement and industrial development in that territory had reached the point where the destruction of opportunity would be so great that any economies you might effect by abandonment would be more than offset by the decreased trade, and also, in my opinion, by damage claims from industries already established. For instance, the largest paper mill in the world is located at Kapuskasing.

THE CHAIRMAN: That is the pulp district there, I understand.

MR. FAIRWEATHER: Yes sir.

THE CHAIRMAN: Where does that pulpwood district extend?



MR. HUNGERFORD: Over practically the whole area occupied by the red line to the north.

THE CHAIRMAN: Where do you get your ties?

MR. FAIRWEATHER: The ties of the Canadian National which are used mostly on the western region are drawn from the National Transcontinental and the old line of the Canadian Northern. The ties are cut in conjunction with commercial timber operations and go hand-in-glove with them -- either pulpwood or straight lumber. The ties which we use from that territory are all jack pine, which occurs in the jack pine ridges and mixed in with the stands of spruce.

THE CHAIRMAN: Then that is not a source of ties for the local railways only in that district?

MR. FAIRWEATHER: Oh, no sir; practically all the ties used in the western region, I should say, certainly east of the western Saskatchewan boundary, are produced in this territory, and a very considerable portion of the ties used in Ontario come from the same locality. I have available, sir, a very interesting study showing just that distribution of our ties, if you would like to have it.

THE CHAIRMAN: It is only a question of the possibilities of that region north of the Great Lakes, which from a good many sources has been represented to us as a region in which economies might reasonably be effected by the suppression of duplication. Can you indicate the general location of the Northern Ontario belt?

MR. FAIRWEATHER: The clay belt, sir?

THE CHAIRMAN: Yes.

MR. FAIRWEATHER: It lies on both sides of the National Transcontinental and extends from a point west



of Hearst to a point between Amos and Doucet. It represents pretty fair agricultural land.

COMMISSIONER MURRAY: That is a distance of about 400 miles, is it?

MR. FAIRWEATHER: I rather think it would be more than that; it would be 450 miles in length. Substantially half of our ties for the whole system come from that territory, and you get there an index also of the collateral timber development, because these ties are not produced by themselves; they are produced in conjunction with lumbering operations, which are directed as well to pulpwood or to the ordinary timber cutting.

COMMISSIONER LEMAN: There is no suppression of lines east?

MR. FAIRWEATHER: There is no suppression of lines until you get considerably east; I will come to that in a minute.

COMMISSIONER LEMAN: Aside from lumber, is there any traffic, say in the way of farm products, originating in that section in northern Ontario and Quebec?

MR. FAIRWEATHER: Oh yes.

COMMISSIONER LEMAN: Which move out of those districts?

MR. FAIRWEATHER: Yes. You find to a certain extent a movement of live stock and also, as you always find in communities like that, commodities which can be concentrated, like butter and cheese. Of course that situation has been somewhat altered by the development of the pulpwood industry in there, and also the mining; that furnishes a local market for these people, but prior to





that time there was a considerable amount of cheese and butter marketed in Quebec. Then, another thing which cannot be overlooked is the fact that in here (indicating on wall map) you have the Rouyn mining field, and you also have prospects at various points around Sioux Lookout and all along the boundary of Ontario and Quebec. Of course there is the Noranda enterprise, which is a producing mine, and the branch line built down into Noranda has justified itself.

COMMISSIONER LEMAN: It is a highly mineralized section.

MR. FAIRWEATHER: Speaking in general terms, sir, the great Laurentian shield impinges upon the Cambrian and the carboniferous, and so on, about on a line like this: it goes on a diagonal line say from Fort Vermilion, cutting the international boundary near the Lake of the Woods, including a good portion of the upper Michigan peninsula and a portion of old Ontario, thence turning abruptly and following the St. Lawrence to the north. I shall not trouble the members of the Commission with the geological history of that country; suffice it to say that you have in here the remnants of strata which have been laid down under water and intruded into by granite, the effects of erosion subsequently revealing the deep-seated mineralization. Of course prospecting is a very hazardous thing, but judging from what has happened in the territories already exploited I should say that no small part of Canada's future industrial economy will depend upon the exploitation of the mineral resources of the Laurentian shield, and the National Transcontinental will of necessity play an impor-



tant part in that development. I cannot see any possibility of abandoning it, even on the basis of its present development, and I think it would be a backward step even if it were possible to abandon it.

COMMISSIONER LOREE: What about that intermediate line between the Canadian Pacific and the National Transcontinental?

MR. FAIRWEATHER: From North Bay out to Meadowside, it is marked for abandonment. But when we examined the stations along the remainder of the line we found that industrial activity had gotten in there to such an extent that you could not make any further abandonment without working considerable hardship and perhaps giving rise to heavy damage claims.

COMMISSIONER LEMAN: That is from Capreol to Nakina.

MR. FAIRWEATHER: Of course if you are going to maintain it at all, you might as well maintain the continuity of it. Undoubtedly there are certain pieces of it that are non-productive, but if you maintain it at all it has to have continuity, otherwise you find yourself with a stub-end operation.

MR. HUNGERFORD: I would like to point out, if I may, that the red line you are speaking of between the Canadian Pacific and the Transcontinental represents the shortest line between Ontario and Winnipeg, and also one of the lowest grade.

COMMISSIONER LEMAN: That is the one with the Long Lac cut-off.

MR. HUNGERFORD: There is a considerable flow of forest products down from Long Lac to Nipigon and Port Arthur and Fort William.



Mr. Hungerford

MR. FAIRWEATHER:

A very substantial piece of line can be abandoned from Sudbury to Bala. That is simply a matter of picking out which is the better operating line and abandoning the other; it might be a combination of both.

Then from Port McNicoll through Lindsay to Millbrook Junction competing lines practically occupy the same territory; there is a possibility of abandonment here.

Then from Collingwood to Beeton.

Then there are a number of small lines, amongst which may be mentioned: Listowel to Linwood, Kingscourt Junction to Glencoe, Woodstock to Ingersoll.

Then from Ottawa to Pembroke up along the river there is a piece, together with certain small pieces in the vicinity, namely, Arnprior to Renfrew, Payne to Eganville, Golden Lake to Pembroke.

Dropping down to this south western part of Ontario, one line can be abandoned from Windsor to Woodstock.

Then from Agincourt, a point just outside of Toronto, to Glen Tay, near Smiths Falls, one line could be abandoned right through. That is the Canadian Pacific Shore line. They built it to obtain a competitive advantage over the Grand Trunk. It cost them a lot of money, but does not tap any new territory at all. In my opinion there is no reason why that line could not be abandoned.

Then there is another piece from Port Hope to a junction with the Whitby line. That is part of the old Canadian Northern. We have been trying industriously to abandon that for how long, Mr. Hungerford?

MR. HUNGERFORD: It is mostly abandoned now.

MR. FAIRWEATHER: There is a piece remaining running into Port Hope.





MR. HUNGERFORD: Little by little the Canadian Northern between Toronto and Napanee has been taken up.

MR. FAIRWEATHER: Then there is a little piece down from Brockville, Lyn Junction to Forfar.

Then from Cornwall to DeBeaujeu -- this piece.

Then this part of the Canadian Pacific mainline from Delson Junction out to Farnham. That would be dependent upon a joint terminal arrangement in Montreal; that is, if you amalgamated the two systems and had complete coordination of facilities in Montreal, you could abandon the line from Delson Junction to Farnham.

Then there are small pieces north of the river and some just south of Quebec City. This brings the Quebec Central into the picture, a Canadian Pacific subsidiary.

Then down in New Brunswick a line in here from Edmundston to Grand Falls. That completes the abandonments.

THE CHAIRMAN: There is very little or nothing between Quebec and Moncton?

MR. FAIRWEATHER: Only that little piece in there.

THE CHAIRMAN: What is the distance?

MR. FAIRWEATHER: Thirty-eight miles.

COMMISSIONER MURRAY: Is the St. John River Valley railway on the opposite side of the river?

MR. FAIRWEATHER: Yes.

COMMISSIONER LEMAN: That is the railway taken over from the government of New Brunswick.

MR. FAIRWEATHER: Yes. The government of New Brunswick built that railway and leased it to the Dominion Government for operation. Later on, that not proving satisfactory, they sold the property.

THE CHAIRMAN: Then there is a little piece down in





the Annapolis Valley.

MR. FAIRWEATHER: Yes.

THE CHAIRMAN: That is all down in the Maritime Provinces?

MR. FAIRWEATHER: That is all I can see.

COMMISSIONER MURRAY: The eastern lines are the least profitable of your whole system. What can you do about it?

MR. FAIRWEATHER: Of course, you are dealing with a very special problem there.

COMMISSIONER MURRAY: Apart from them your operation ratio is 1.10. In other words, when you go down to the south shore you are not even making half your expenses on two or three of those lines.

MR. FAIRWEATHER: On the average I think our operating ratio at the present time is about 110.

MR. HUNGERFORD: That is for the whole Canadian National system. Some of the branch lines would show a very very high operating ratio.

COMMISSIONER LEMAN: Mr. Fairweather, that is an estimate prepared by the officers of the Canadian National Railways?

MR. FAIRWEATHER: By the Bureau of Economics under my personal supervision.

COMMISSIONER LEMAN: Is it conceivable that a joint examination of the whole situation would develop other features?

MR. FAIRWEATHER: I think, sir, the only thing that would happen would be a reduction in the mileage, because we set very drastic standards.

COMMISSIONER LOREE: May we know what those were -- the measuring stick?



MR. FAIRWEATHER: We used the population per mile affected, the station earnings per mile, and an estimate of the industrial capital invested in the country. It was more or less an elastic standard. We have all the details and can submit them to you.

COMMISSIONER LEMAN: The sum of those is about 2,400 miles?

MR. FAIRWEATHER: About 2,400 miles.

MR. HUNGERFORD: This programme just outlined by Mr. Fairweather represents a consideration of lines that might be abandoned in cooperation with the other company; but each company probably has other branch lines that are worthy of consideration in themselves, quite apart from the cooperative feature.

MR. FAIRWEATHER: I think we included everything, Mr. Hungerford.

MR. HUNGERFORD: I should like to add this. In view of past experiences in endeavouring to get rid of lines of railway, it seems altogether too much to hope that anything like that programme could finally be carried out. You will find so many communities and so many interests involved, that I question very much whether it would be possible to secure final authority to dispose of them.

COMMISSIONER MURRAY: Take that section between Saskatoon and Unity, where the lines are from three to four and in some cases from one to two miles apart, with separate stations in a fairly settled community. Would you be liable there for damages if you abandoned anything?

MR. HUNGERFORD: That is a legal question; I rather think we would, but I am not competent to express an opinion in regard to it. Unfortunately in that section communities



have grown up on the different lines.

LORD ASHFIELD: What procedure do you follow in order to abandon any railway?

MR. HUNGERFORD: In general we apply to the Board of Railway Commissioners, who, if they approve, recommend abandonment to the Governor in Council.

LORD ASHFIELD: You cannot do it of your own volition?

MR. HUNGERFORD: No, sir.

COMMISSIONER LOREE: What period of time does that take?

MR. HUNGERFORD: Sometimes two or three months, sometimes longer.

COMMISSIONER LOREE: It takes two to four years in the States. I wondered how long it would take here.

MR. HUNGERFORD: For the last fifteen years I have been involved in efforts to get rid of branch lines, and I can count on the fingers of my hands the lines we have disposed of in that time.

THE CHAIRMAN: Mr. Hungerford, it is five o'clock now; could you come at ten o'clock tomorrow morning?

MR. HUNGERFORD: Certainly, sir.

THE CHAIRMAN: We should like to hear your comment on the situation as a whole. You have had a very wide experience, and I am sure a great many things must occur to you that would be valuable to us if we could have the advantage of hearing further from you.

At 5 o'clock the Commission adjourned.





ROYAL COMMISSION ON RAILWAYS AND TRANSPORTATION

The Royal Commission appointed to inquire into the whole problem of transportation in Canada, particularly in relation to railways, shipping and communication facilities therein, having regard to present conditions and the probable future developments of the country, met at the Parliament Buildings, Ottawa, on Tuesday, January 5, 1932.

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PRESENT:

RIGHT HON. LYMAN POORE DUFF, P.C., Chairman

RIGHT HON. LORD ASHFIELD

SIR JOSEPH W. FLAVELLE, Bart.,

BEAUDRY LEMAN, Esq.,

LEONOR FRESNEL LOREE, Esq.,

WALTER CHARLES MURRAY, Esq.,

JOHN CLARENCE WEBSTER, Esq.,

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} Commissioners

Arthur Moxon, Esq., K.C., Secretary

George W. Yates, Esq., Assistant Secretary

Officials of Canadian National Railway Company

Sir Henry W. Thornton, K.B.E., President

S. W. Fairweather, Director of the Bureau  
of Economics

S. J. Hungerford, Vice President of Operation  
and Construction

A. J. Hills, Assistant to Vice President

C. S. Gzowski, Chief Engineer of Construction

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Parliament Buildings, Ottawa,

Tuesday, January 5, 1932.

MORNING SESSION

The Commission met at 10 o'clock.

THE CHAIRMAN: Mr. Hungerford, you have been connected with the National system and its predecessors for many years?

MR. HUNGERFORD: Yes sir.

THE CHAIRMAN: Perhaps you would like to give us some assistance with regard to the capital expenditures during the period we have had under consideration.

MR. HUNGERFORD: Mr. Chairman, I took advantage of a few hours last night to prepare a memorandum embracing certain of my views on the railway question.

THE CHAIRMAN: We shall be very glad to hear them, Mr. Hungerford.

MR. HUNGERFORD: It pretty well covers the field in a general way, and naturally deals with subjects that have already been presented to you many times. I have to apologize for my voice, but I will do the best I can.

The building of railways in Canada has nearly always preceded the development of the section of country involved and has been almost uniformly the means employed to colonize and otherwise develop the section. Ever since the inception of railways there has been an insistent demand on the part of communities for more and more railways with the object of opening up more tributary territory and thereby securing a larger volume of trade, and the country as a whole has generally supported large railway projects, even although they involved



the building of a very large amount of mileage through almost wholly undeveloped territory.

In order to secure the benefits of railway service, municipalities have granted bonuses and the provincial and federal governments have made large donations of various kinds and have guaranteed securities issued by the railways in very large amounts. All of this indicates that the public was fully seized with the necessity of railway service if development was to take place. The building of railways in advance of development in the territory necessarily implies that there will be a period during which the earnings are not sufficient to support the railway and the records show that almost every section of line in the country experienced serious financial difficulties for a certain length of time while the communities served were growing and otherwise developing. In this sense Canada has nearly always had a railway problem and the present one does not differ in principle from the others, except in magnitude, but the population and wealth of the country has grown with the railways, and proportionately the problem is probably not more serious to-day than it has been at times in the past.

It is significant that while railway mileage increased between 1900 and 1929 by 135 per cent -- the gross earnings of railways in the same period increased 645 per cent and the external trade of the country also increased by 645 per cent, from which it appears to be a fair deduction that the external trade of this country has been made possible by the development through railways.



As another evidence of the value of railway service to the country it may be pointed out that no community lacking railway service has attained any growth and there has been little or no development in sections of the country where railways do not exist. This desire on the part of the public for the construction of more railways still exists and only the present severe depression has somewhat modified the clamor.

COMMISSIONER LEMAN: With regard to the increase in railway mileage, the comparison is between 1900 and 1930?

MR. HUNGERFORD: Yes, 135 per cent increase in railway mileage.

COMMISSIONER LEMAN: You have not worked out a curve showing the yearly growth?

MR. HUNGERFORD: We have that. We can present it to you later if you wish.

THE CHAIRMAN: You can let us have that?

MR. HUNGERFORD: Yes sir.

THE CHAIRMAN: You can present the situation graphically?

MR. HUNGERFORD: Yes.

THE CHAIRMAN: There might be variations in the percentages in between.

MR. HUNGERFORD: Yes.

COMMISSIONER LOREE: Have you the percentages of increase in the capital investment?

MR. HUNGERFORD: No, but we can get that, Mr. Loree. We will make a note of it.

It seems a reasonable conclusion that the development of Canada has only been made possible by the construction of railways and in advance of substantial





settlement, and if this policy had not been pursued, Canada would not have attained its present wealth and population.

Railway construction in Canada may be roughly divided into four periods in each of which there was some major development:

- (1) Prior to 1880 when the Grand Trunk and Inter-colonial were constructed.
- (2) 1880 to 1900, during which the Canadian Pacific was constructed.
- (3) 1900 to 1915, when the Canadian Northern, National Transcontinental and Grand Trunk Pacific were constructed, as well as various branch lines by the Canadian Pacific, and the Pacific Great Eastern and railways in northern Alberta.
- (4) 1916 to 1931, when various branch lines were constructed by the Canadian Pacific and Canadian National railways.

The third period, viz: from 1900 to 1915, was that in which the greatest amount of new mileage was constructed and its close coincided with the arresting affect of the war upon the general development of the country, and our present troubles began about that time as the transportation facilities had been provided but colonization stopped. The general result was the financial collapse of the railways now constituting the Canadian National system and their progressive taking over by the Dominion Government as a necessary measure of policy.

Having assumed control of these various properties the obvious thing to do was to coordinate them in order



that they might be operated as efficiently as possible and in the accomplishment of this objective all lines were placed under one management and the Canadian National Railway System was the result.

The situation which confronted the new management of the consolidated properties was an extremely difficult one and it had a great multitude of problems to solve. The Grand Trunk Pacific and the Canadian Northern were not entirely completed nor equipped for operation and the earlier constructed lines of the latter company were in a very poor physical condition; while the Grand Trunk and Intercolonial were badly run down as a result of war pressure and financial limitations. All of these groups were very short of rolling stock and what was owned was generally in a poor condition of repair.

On practically all of the lines, the condition with respect to ties, rails, ballast, bridges, buildings, and other features of like character was most unsatisfactory; terminal facilities required enlargement and rearrangement to permit of satisfactory and economical operation; the coordination of the various groups so as to operate as a single system involved the construction of numerous connecting lines and rearrangement of facilities. Altogether, the physical condition was such as to preclude giving even reasonably satisfactory service.

Beyond all this, the management was faced with the following combination of conditions:

- (a) Property bankrupt by a very wide margin, i.e., capitalized far beyond its earning power.



LORD ASHFIELD: When you say "capitalized?" distinguish between the nominal amount of the capital and the actual amount of money spent on the undertaking?

MR. HUNGERFORD: Speaking of the investment account, sir.

LORD ASHFIELD: But when you say, capitalized, do you mean money spent on the undertaking, on capital account?

MR. HUNGERFORD: The amount of money charged and appearing in the books against the property.

LORD ASHFIELD: You do not analyze it to discover if it was actually spent?

MR. HUNGERFORD: No sir. The figure as I recall it was 1,810 millions at that time, exclusive of government railways.

LORD ASHFIELD: The only point you are making is that \$1,800,000,000 is too large a sum for the railways to be operated upon?

MR. HUNGERFORD: Yes.

LORD ASHFIELD: In order to provide a return on that capital?

MR. HUNGERFORD: It was an amount far beyond the earning power of the property.

COMMISSIONER LEMAN: But not beyond the amount that was actually spent. When it was taken over by the Government, was there anything else except the \$10,000,000 paid to the Canadian Northern?

MR. HUNGERFORD: Well, I believe the so-called capital account of the Canadian National Railways includes within it the effect of pretty nearly all the railway mistakes of the past, in some shape or form.





LORD ASHFIELD: Always reflected in money?

MR. HUNGERFORD: Yes.

COMMISSIONER LEMAN: Money that was spent without justification?

MR. HUNGERFORD: Of course the situation varied from time to time. It was spent for many purposes, but a considerable portion of that money was not reflected in the actual property, that is to say, was not spent in the construction of facilities. I do not know whether I make myself clear in regard to that.

LORD ASHFIELD: I think the better way to leave the point would be to submit a detailed statement. Perhaps it would be rather challenging your memory to take you too far.

MR. HUNGERFORD: Possibly so. That would be quite satisfactory.

LORD ASHFIELD: It will be helpful if you will supplement that with a detailed statement of your capital position.

SIR JOSEPH FLAVELLE: What you have is a body of securities in the hands of the public, and you have other securities represented by a figure for capitalization for which there was no money paid. You have a body of branch lines which, as you properly indicate, include all the mistakes, with the exception of those that the Canadian Pacific took over; but the great majority of these lines were taken over into the Grand Trunk or the Canadian Northern or some one of the lines entering into the National system, plus the small lines that various private parties or governments had furthered, notably in the far east. In it is the 400 millions of the National Transcontinental and the



Intercolonial, that represented money but not earning. On your balance sheet you include in your capital structure \$2,800,000,000, a billion more than you indicated. You include the capital stock of some of these, as though it were cash. Of course it never was put into the property; what was put into the property was the money that was secured from the public, the lines which were secured from the Government at various periods, the share capital in some cases paid for by acquired properties. If you are going to analyze the whole of that statement, it will be quite useful.

COMMISSIONER LEMAN: Are you quite sure, Sir Joseph, there are any amounts represented by equity stocks taken in the financial structure of the C.N.R.?

SIR JOSEPH FLAVELLE: The Canadian Northern, for instance, is taken in at \$100,000,000.

THE CHAIRMAN: Let me see if I understand Mr. Hungerford correctly. The figure of \$1,800,000,000 that you have given us is what appeared in the books, in the investment column?

MR. HUNGERFORD: Yes sir.

THE CHAIRMAN: In respect to these railways, exclusive of what you call the Government railways?

MR. HUNGERFORD: Yes sir.

THE CHAIRMAN: Now, the Government railways would be what?

MR. HUNGERFORD: That is something over \$400,000,000.

THE CHAIRMAN: I mean, what would they include?

MR. HUNGERFORD: The Intercolonial, the National Transcontinental railway and the Prince Edward Island



railway.

THE CHAIRMAN: Exclusive, then, of the National Transcontinental, the Intercolonial and the Prince Edward Island railway, the figure would be 1,800 millions?

MR. HUNGERFORD: Yes sir.

COMMISSIONER LEMAN: Then your claim is not that the money was not spent, but that it was not spent to advantage; is that your contention?

MR. HUNGERFORD: I do not know that it is possible for anyone at this time, Mr. Leman, really to express an opinion with regard to that, because it goes away back to the early history of the Grand Trunk. It covers a period of seventy-five years or so, and I doubt whether anyone knows the exact history of all that occurred.

COMMISSIONER LOREE: In the statement of profit and loss the interest on government advances is stated as having been \$30,157,944 in 1923 and \$32,693,875 in 1930, an increase of about two and one-half millions. I had the impression that very considerable advances had been made in that eight year period, but they do not seem to be reflected in the growth of the interest charges.

MR. HUNGERFORD: The advances during the eight year period, that is to say, subsequent to January 1st, 1923, have been relatively small as reflected by that increase of \$2,000,000. Subsequent to 1923 the Government changed the policy, simply guaranteeing the railway's securities sold to the public rather than furnishing the cash themselves.

SIR JOSEPH FLAVELLE: The Government guaranteed; the securities were sold to the public, and the interest



appears in the interest due to the public.

LORD ASHFIELD: It is a method of financing.

COMMISSIONER LEMAN: The Government became an endorser.

SIR JOSEPH FLAVELLE: The interest is not reflected in the \$32,000,000; it is reflected in the interest on the 1,250 or 1,300 millions outstanding.

MR. HUNGERFORD: I was just enumerating the conditions that confronted the management at that time.

- (a) Property bankrupt by a very wide margin, i.e., capitalized far beyond its earning power.
- (b) Lowest average traffic density of any large system in North America.
- (c) Very low freight rates as compared with other countries.
- (d) Necessity of spending large amounts of money to keep certain lines in condition to operate at all.

That has reference to the condition of bridges and things of that kind that were essential to operation; money had to be spent to make the lines safe for operation.

SIR JOSEPH FLAVELLE: Notably, I suppose, on the Canadian Northern throughout the west, where in the early days wooden trestles and bridges had been built.

MR. HUNGERFORD: Not altogether, Sir Joseph. It applied to the Canadian Northern to a very large extent; it also applied to the Grand Trunk Pacific, in the mountain section, and to the old Grand Trunk in the east and the Canadian Northern in the east as well. So far as the Grand Trunk in the east was concerned, it was more a matter of steel bridges and things of that kind that had badly de-





teriorated.

- (e) Necessity of spending large amounts to place the property in reasonable and economical working condition.

That is over and above the necessity of just keeping the lines open.

THE CHAIRMAN: That last heading you have given does not convey anything definite to my mind. Would you please develop that a bit?

MR. HUNGERFORD: In general the condition of the property was bad, either incomplete or so largely run down that trains could not operate at speed; derailments were frequent; terminal facilities were inadequate in most respects, and in poor condition. Altogether the physical condition was such that it was not possible to operate economically. Is that a sufficient answer?

THE CHAIRMAN: Yes, quite.

MR. HUNGERFORD: The management was also confronted with an insistent demand on the part of the public for the construction of branch lines, grade separations, stations and hotels, and for a higher standard of service generally.

THE CHAIRMAN: The matter of grade separations was in the hands of the Railway Commission?

MR. HUNGERFORD: Yes.

THE CHAIRMAN: The others the Railway Commission had no control over?

MR. HUNGERFORD: Well, the board has a certain measure of control in regard to stations, yes, but not with regard to hotels. During all these years there has been just one continual roar for the construction of these



facilities --

LORD ASHFIELD: Roar, did you say?

MR. HUNGERFORD: Yes. Perhaps it is not a good word; we will say, constant propaganda.

SIR JOSEPH FLAVELLE: Pressure would ultimately, I suppose, be brought to bear through parliament.

MR. HUNGERFORD: To continue the memorandum:

The cause of the unreasonably high initial indebtedness was the failure for reasons of policy to very substantially write down the investment accounts of the constituent companies that had failed under private management, plus the large sums advanced to them by the Dominion Government for interest and operating purposes, both before and after acquisition, but prior to January 1st, 1923.

THE CHAIRMAN: You are using the word "indebtedness" in a very broad sense there, are you not?

MR. HUNGERFORD: Yes sir.

THE CHAIRMAN: Perhaps you would not mind explaining just what you mean by that?

MR. HUNGERFORD: It comes back to the question we were discussing a few minutes ago -- the earning power of the company as indicated by the record of previous years was quite insufficient to meet the interest upon the securities outstanding.

SIR JOSEPH FLAVELLE: Under normal circumstances, Mr. Hungerford, if we had not had any war and a receiver had been brought in, there would have been an immense writing down of the face value of the securities. That is what was done in the United States, where largely British capital was involved -- not because it was British, but those were



the circumstances; the receiver, or the reorganization following the receivership, changed the character of the securities. In this case, because we were at war the Government determined they would not appoint a receiver for these roads but would take over the properties and operate them, so that that elimination process has never taken place.

MR. HUNGERFORD: No.

COMMISSIONER LOREE: Sir Alfred Mond says that modern civilization is kept alive by the surgical operations of the bankruptcy courts.

THE CHAIRMAN: I still have not just grasped what you mean by indebtedness there. Do you mean capital?

MR. HUNGERFORD: Well, investment account, sir.

THE CHAIRMAN: You mean investment account?

MR. HUNGERFORD: Yes. As a matter of fact the Government advanced to the constituent companies prior to January 1st, 1923, somewhere about \$500,000,000, for various purposes -- capital account, interest payments, and actual operating purposes, and in some of the years they did not earn their operating expenses.

COMMISSIONER LEMAN: That opens up the question Mr. Fairweather dealt with, that no depreciation would be needed provided you had perfect management and there were no mistakes, because if mistakes are made there is nothing with which to take care of the loss in capital. Would that qualify your statement, Mr. Fairweather?

MR. FAIRWEATHER: I think your statement is substantially correct, Mr. Leman. Of course, as Mr. Loree has said, left to the open play of economic forces,





bankruptcy becomes the cure of mismanagement.

SIR JOSEPH FLAVELLE: Or in the absence of mismanagement, the mis-direction of a good deal of expenditure.

MR. FAIRWEATHER: I was using the word "mismanagement" in its broadest sense, sir. I would conceive of unwise capital expenditures as mismanagement.

COMMISSIONER LEMAN: So that the replacement would take care of the normal wear and tear provided no mistakes were made involving any form of capital expenditure.

MR. FAIRWEATHER: Subject to this qualification, Mr. Leman: that a railway must continue to modernize itself. It is not enough simply to replace; one of the functions of good management consists in continually modernizing the property. It does it, however, gradually, and as a rather small percentage upon the total investment. In a property the size of the Canadian National the proportion of the capital expenditure which would go to the modernization of the facilities runs to about \$12,000,000 a year. I think Sir Joseph's idea is that that money is really a maintenance charge; it simply keeps the property abreast of the times. It is capital which is distinct from expansion -- just simply to keep the property in a modern condition. With that qualification I can see no reason for depreciation as applied to railway operation, supposing your property is large enough to give a real diversity factor. Of necessity, if you lock your capital up in a small number of parcels and one of those parcels goes astray, you are in a bad way, but if you have it locked up in a multiple of small commitments, then a number of them can become obsolete without affecting the general picture,



except in a very small degree, which you will continually be replacing by this capital expenditure that I am speaking about in the modernizing of your property.

COMMISSIONER LEMAN: Where would you find the wherewithal to write off such an amount of capital as would represent a small mistake that might creep into railway management or railway judgment?

MR. FAIRWEATHER: Of course, Mr. Leman, the thing about that is this -- one might as well be blunt about it: the Canadian National as an enterprise from a financial point of view has been bankrupt from its inception, and the only means that we had at our disposal to apply efficient management to the property has been recourse to the financial backing of the Government. If we did not have that, then while our management ability might exist, our opportunity for putting that managerial skill into play would be non-existent. I might have the very best intentions in the world, and I might know, for instance, that capital invested in a new yard facility in Montreal -- and this is a very concrete case -- would yield 30 per cent per annum, but if I cannot get my hands on the money, the knowledge is of no value.

COMMISSIONER LOREE: I would put that in another way, Mr. Chairman. I think the experience in the States is that the maintenance of the road in such manner as to keep it up to the state of the art involves an annual expenditure of about one per cent of its capitalization. If it shows an earning of seven per cent on its capital, the whole of that is not distributable; one per cent of it ought to be reserved for the property itself -- not for



maintenance, but for rehabilitation and adaptation to the state of the art. You have to tear down an old engine and replace it with a new one, to meet obsolescence, and things of that kind.

THE CHAIRMAN: Well, Mr. Hungerford, do you wish to proceed?

MR. HUNGERFORD: To continue with the memorandum: The rate structure was also practically beyond the control of the management and therefore the only opportunities afforded for improvement were the lowering of operating costs and the development of more traffic, and both were adopted as measures of policy. Among other factors, a good service was obviously necessary to secure more traffic and a good physical condition was necessary for good service as well as being essential to better operating costs. The improvement in physical condition necessarily cost a lot of money and the fixed charges were thereby increased but the resulting savings were much greater than the increased fixed charges. Under the circumstances outlined above, it is not clear that any other course of action could have been generally adopted and although the cost involved has been great, much more than compensating savings in the cost of operation have been effected and the people of Canada have benefited largely from the improvement in service.

I might say, and I am sure Sir Joseph will bear me out in this, that at the beginning of the period and just before, the service was anything but satisfactory. It could not be otherwise; the property was not in a condition to operate with any degree of success.





SIR JOSEPH FLAVELLE: Of course you spent a lot of money between 1918 and 1923.

MR. HUNGERFORD: Yes sir; the beginning of the Canadian National was about 1918, in the first instance.

SIR JOSEPH FLAVELLE: The Canadian Northern was taken over in 1918, and a lot of money was spent on it. Then a good deal of money was spent on the Grand Trunk when it was taken over.

MR. HUNGERFORD: Oh yes, it is all part of the same development, to bring the property up.

SIR JOSEPH FLAVELLE: You really have to go back to 1918 for your position.

MR. HUNGERFORD: You really do, in order to get a complete picture.

SIR JOSEPH FLAVELLE: The Government has been a liberal cashier, you know.

MR. HUNGERFORD: Oh, very.

SIR JOSEPH FLAVELLE: For a bankrupt property.

MR. HUNGERFORD: It was very much bankrupt, though.

In addition to the physical improvements that have been made since amalgamation, complete reorganization has been effected, traffic has been diverted to more economical routes, pre-existing practices and methods have been examined, and the best that could be devised have been adopted for system use. Practically every phase of the company's operations and methods have been studied and improved. The collective effect has been that unit costs have shown a substantial reduction and are now comparable with other railways if proper allowance be made for very low density of traffic and other adverse factors.





The other adverse factors, in general, are more severe climatic conditions which tend to increase the cost of operation in the winter time and to increase the cost of maintenance through the effect offrost upon the track.

To-day it can truthfully be said that the Canadian National Railways are well organized, follow the best practices, operate at low cost, and in general provide excellent service to the public, and the loyalty, initiative and general morale of the whole staff stand at a high level, and intensive efforts are constantly being made to secure higher efficiency and lower costs.

SIR JOSEPH FLAVELLE: In the excellence of the property regard must be had to its ability to earn something on the capital that is invested. There are no earnings available for the capital invested if there is no adequate dealing with depreciation on the property.

MR. HUNGERFORD: That brings up a question to which I will refer later, briefly. But during the period under review we spent a lot of money from revenue in improving the standard of maintenance on the railroad. That has run into a large sum, which would not have been charged against operating expenses if the property had been in a normal condition at the beginning of the period. But it was not; the standard was too low throughout.

LORD ASHFIELD: Is your point this: that if these large sums of money had not been spent since 1918 you would not have had as good a result, however unfortunate the financial result may be to-day?

MR. HUNGERFORD: Yes, I mean just that -- that we could not have carried on these properties and given any-



Mr. Hungerford  
Mr. Fairweather

thing like a service that would have been regarded by the public as satisfactory; furthermore, the financial result would not have been as good as it is to-day.

LORD ASHFIELD: Your last point is the one I have in mind: you justify your capital expenditure on the ground that the financial result, whatever it may be, is better to-day than it would have been but for that expenditure?

MR. HUNGERFORD: That is exactly the point, sir.

COMMISSIONER LOREE: In tearing down your equipment and retiring it, where was that money charged? Was it charged into operating expenses?

MR. HUNGERFORD: Operating expenses, yea.

SIR JOSEPH FLAVELLE: What is that, again -- that the provision for the betterment of the equipment and the obsolescence of equipment was taken out of earnings?

MR. FAIRWEATHER: The equipment which was retired --

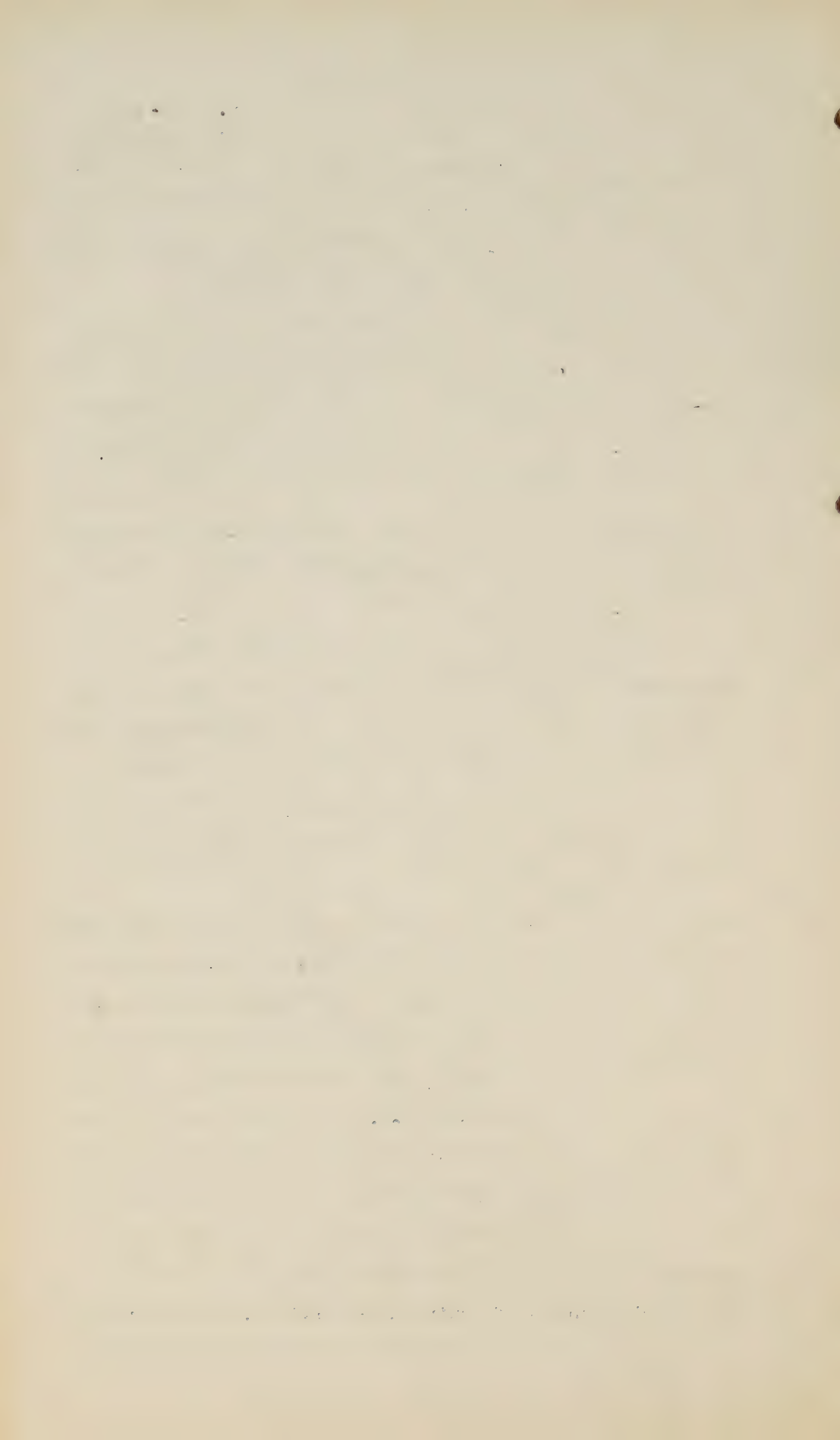
SIR JOSEPH FLAVELLE: You have an equipment account of how much -- \$300,000,000?

MR. FAIRWEATHER: Yes sir. But in the period under review there was a very drastic revision of this equipment. Thousands of freight cars were retired and destroyed, and the cost of these freight cars which were so retired and destroyed was written into operating expenses.

SIR JOSEPH FLAVELLE: You are going to give us these particulars in detail so as to show the actual amount that was written off for depreciation?

MR. FAIRWEATHER: Yes sir.

COMMISSIONER LOREE: When you do that, Mr. Fairweather, could you give us a statement showing the age of your various units of equipment -- engines, freight cars



and passenger cars? I do not think it is worthwhile going into the work cars.

MR. FAIRWEATHER: I have it all, sir -- all classified by age groups.

COMMISSIONER LOREE: In about five year periods?

MR. FAIRWEATHER: Yes sir. The average age of our freight equipment at the present time is fifteen years.

THE CHAIRMAN: You may proceed, Mr. Hungerford.

MR. HUNGERFORD: I was going on to deal with what I regard as the chief factors in our railway problem.

In my view the chief factors in the present railway problem of Canada are:

- (a) The present world-wide depression.
- (b) Over-expansion of railway construction possibly too far in advance of colonization and development in some cases.
- (c) Increasing water competition.
- (d) Increasing competition by highway transport agencies.
- (e) A low rate structure and one not easily adjustable to new conditions.

The new conditions I refer to are largely a development of highway transport.

- (f) Too high standard of certain passenger and steamship services and hotel developments.

Now, coming to the various solutions that have been discussed, I would like to express my opinion in regard to one suggestion, and that is the amalgamation of the two major railway systems.

- (1) The consolidation of practically all railways into one system would inevitably result in a serious decline





in the energy, initiative and enthusiasm of the officers and employees which is now at a remarkably high level and which has been largely developed and sustained by vigorous competition. The spirit of loyalty and enthusiasm constitutes a most important asset and if it were seriously impaired, as it doubtless would be, the resultant loss would largely, if not wholly, offset any savings that might be effected. Not only would the railways lose in efficiency and consequently in the cost of operation, but the public would also suffer seriously from the general slowing down and deterioration of the service. Competition has very largely created the existing morale of the staff and only competition can maintain it.

(2) In view of the efforts that have been put forth by the people in various communities and sections of Canada and the obligations that have been assumed to secure competitive railway service, it would appear that the people generally place a high value upon it, and presumably would be reluctant to give up now what they have secured. At one time there was practically a railway monopoly in western Canada and during that period there was almost constant agitation for the construction of other railways and the provision of competitive service. This agitation nearly developed into an insurrection and forced the Government of the time to make arrangements whereby the construction of competing lines became possible. Even although well served by one railway, a community almost invariably presses for the construction of another one whenever there appears to be a reasonable chance of accomplishing such purpose, in order, as they



believe, to benefit the community and quite regardless of whether such construction is justified economically, or otherwise. A review of what has occurred in past years, together with the fact that such efforts are being made even now, must lead to the conclusion that the people generally do place a high value upon competitive railway service.

LORD ASHFIELD: If I understand you correctly, you are in favour of competition?

MR. HUNGERFORD: I am.

LORD ASHFIELD: Of course that is your own personal opinion?

MR. HUNGERFORD: Yes.

LORD ASHFIELD: It does not reflect the views of Sir Henry Thornton.

MR. HUNGERFORD: I reflect my own views. I do not know just how they coincide with his.

LORD ASHFIELD: Your experience tells you that the best results to the community as a whole are obtained by having competitive services in these two railways?

MR. HUNGERFORD: Yes, within reasonable limitations.

LORD ASHFIELD: Perhaps you would explain what you mean by reasonable limitations, and how they could be made effective.

MR. HUNGERFORD: Every once in a while competition more or less runs away and develops into a ridiculous position. It is quite possible under the stimulus of competition to have unwise development-- too much service, too high class service or something of that kind. But after all, competition in railway services in Canada is



of the same general character as that of competition between railways in other countries, the United States included, and also of the same character as the competitive factors as between commercial firms of all kinds everywhere.

LORD ASHFIELD: But if I may say so, competition between industrial concerns is not on quite the same footing as competition between railway services. Railway services have to be operated; you cannot avoid it -- they must be continued, because you have to serve the public. Other businesses may cease to exist if they are no longer profitable, but railways must continue. May I ask you this question: when you base your conclusions on this question of competition, is it that one system should be nationally owned and the other privately owned?

MR. HUNGERFORD: My lord, if I had had the direction of affairs I would have had them both privately owned. But that condition was not possible.

LORD ASHFIELD: Does it affect your view at all, the fact that we are faced with the position that one is nationally owned and the other is privately owned?

MR. HUNGERFORD: No.

LORD ASHFIELD: It does not alter it?

MR. HUNGERFORD: No.

LORD ASHFIELD: You would leave the position just as it is?

MR. HUNGERFORD: Yes, I would.

THE CHAIRMAN: In that respect, you mean?

MR. HUNGERFORD: Yes, in that respect.

SIR JOSEPH FLAVELLE: That is to say, it being impossible to pass the National system over, to sell it to



somebody privately, you accept the National system as a competitor because it is necessary in your view to have a competitive system -- or perhaps desirable is the better word.

MR. HUNGERFORD: Well, I think it is in the general interest, in view of the fact that these two railways exist at the present time, that they should be continued as separate institutions and allowed to compete one with the other, with a certain measure of restriction against unreasonable development, but still maintaining the principle of competition.

SIR JOSEPH FLAVELLE: What is the method of restriction you have in mind?

MR. HUNGERFORD: I rather endorse the principle of the suggestion of Sir Henry Thornton yesterday as to the appointment of some body -- or at least some commission being endowed with power more or less to supervise and to prevent ridiculous developments.

COMMISSIONER LOREE: If you had a free hand, would you rather see these national roads in the hands of a private corporation, or in the hands of the Government?

MR. HUNGERFORD: Entirely free hand?

COMMISSIONER LOREE: Yes.

MR. HUNGERFORD: Oh, I think I would have them in the hands of a private company.

LORD ASHFIELD: Can you help the Commission on this question of what you call ridiculous competition by suggesting how that can be avoided? You do think it is a ridiculous position now, do you, or has competition got that far yet?

MR. HUNGERFORD: I do not think that a large pro-





portion of the competition between the two railways has been unwarranted or ridiculous at all, but I do admit that in certain developments it has reached a ridiculous point. I have no hesitation in saying that I think we went too far with hotel development and in connection with some steamship developments, and to a slight extent we have done so in connection with passenger train services. That is pretty well past now -- it is pretty well done.

SIR JOSEPH FLAVELLE: Adversity helps us to become wiser, some times.

MR. HUNGERFORD: I think we learn from experience.

THE CHAIRMAN: Does that extend to premature construction?

MR. HUNGERFORD: Well, to some extent, sir.

THE CHAIRMAN: May I put this question -- and I do not want an answer in detail at all: in what you have just said are you thinking of what was done in the light of experience, or in the light of what should have been a proper judgment at the time?

MR. HUNGERFORD: I am not quite sure of your reference, sir.

THE CHAIRMAN: I mean with regard to premature construction. It is easy to say now: "Oh well, it was too soon," and so on; is it from that point of view that you would criticise such items of premature construction as you have in mind, or do you say that looking it from the point of view of the judgment that should have been exercised at the time the construction was decided upon, it was unwise competition -- to use a milder phrase than the one you have used?



MR. HUNGERFORD: Well, one's hindsight is always much better than foresight.

THE CHAIRMAN: That is what I am recognizing.

MR. HUNGERFORD: But under the conditions that prevailed at the time these major developments took place, particularly in connection with the construction of the Canadian Northern and the Grand Trunk Pacific, as being the most outstanding feature in railway development of that day, I think Sir Joseph will bear me out in this, that there was a general support of the proposal throughout the country, and that was reflected in the acts of parliament bearing upon the question. I happen to know that Sir Joseph was one of the objectors to the policy, but it is a fact, I think, that the great majority of the people at that time thought it was the proper thing to do. I recall distinctly reading in many editorials in representative newspapers statements to the general effect that railways could not be built rapidly enough to cope with the development of the country. It is not a species of condemnation at all; I am simply stating a fact that is recognizable by all.

THE CHAIRMAN: I really had not in mind the large question of policy involved in the construction of the Grand Trunk Pacific, or the question, whatever it was, whether of policy or something else, involved in the construction of the National Transcontinental; I was thinking of the more recent developments that have been criticised, particularly in western Canada.

MR. HUNGERFORD: The railway development since perhaps 1920 has consisted almost entirely of the construction of branch lines, and both companies have followed



about the same policy and practically to the same extent. I do not think it can be argued in any case that any one of these branch lines in itself directly is justifiable but from the standpoint of the national interest and from the standpoint of the secondary benefits to the railway, I think a case can be made. Any good policy, however, may be carried too far, and the question therefore is whether that good policy was carried too far in this instance or not. Personally I doubt whether it was. I think that the secondary benefits to the railway in the way of the traffic furnished, the movement over the main line, together with the increase in the national wealth due to the construction of these lines, would probably justify them -- I rather think so.

SIR JOSEPH FLAVELLE: Have you thought, Mr. Hungerford of this question; if the policy of the country to-day were such as would not be a matter of choice on the part of the investor, that is to say, if rates were put down below what the investor might reasonably expect the rate to be, have you considered whether it should be a charge upon the country and not a charge upon the railways?

MR. HUNGERFORD: That is a subject we have discussed many times, Sir Joseph. It is perhaps an academic question.

SIR JOSEPH FLAVELLE: But is it an academic question?

MR. HUNGERFORD: Well, I really do not know.

SIR JOSEPH FLAVELLE: If we are operating the railways as a business venture, and parliament intervenes and says that for certain public reasons they want it to be operated not primarily as a business venture but as a





public enterprise, is there some place where private interests, or even railway men operating a public property, would say: Do not make it a charge against the railways but rather a charge against the consolidated revenue of the country?

MR. HUNGERFORD: I think it is reasonably fair to say that perhaps the agricultural interests in particular, and possibly others, have been bonused in the way of exceptionally low freight rates at the expense of the railways.

COMMISSIONER LOREE: Would it be a fair statement to make that a democratic form of government is no competent agency to carry on the railroad business?

MR. HUNGERFORD: That is a very large question. We are seeking to do it, Mr. Loree, as a matter of necessity.

COMMISSIONER LOREE: But are they doing it? The records do not show they are, because they are going behind every year.

THE CHAIRMAN: I think the point as put by Mr. Hungerford goes beyond carrying on the business, Mr. Loree; it is the regulation of the business. Is a democratic government competent to regulate rates?

MR. HUNGERFORD: That is a large question.

THE CHAIRMAN: I think what Sir Joseph is suggesting is this, whether Parliament should make a grant every year to make up the difference between what you would consider a fair rate and the rate which is fixed either directly or indirectly by virtue of the Crow's Nest Pass



legislation?

MR. HUNGERFORD: Certainly if that were done --

THE CHAIRMAN: Of course they have to do it in your case, but in the case of the Canadian Pacific.

MR. HUNGERFORD: Well, that is a very large question of policy, and I do not know that I am competent to pass an opinion on it.

SIR JOSEPH FLAVELLE: May I speak from another angle? You have referred to what I think is recognized as an accomplishment in the Canadian National, the loyal spirit which prevails throughout the service; and it has transpired from the testimony of officers during the sittings of the Commission that it is their view that what has been accomplished is a worthily done piece of work. I am not attempting to combat that, but I simply wish to get at this point: this Commission presumably is appointed because the manner in which the railways have been conducted has produced a condition of such embarrassment that it becomes necessary to determine in what other manner they could be conducted so that this embarrassment may be relieved. Now, among the things that belong to a loyal staff is the interpretation of the trustee relationship which is involved. The Government of the country is operating a system of railways, some of them duplicated against one another at an earlier period; some of them in answer to a popular outcry. There is apparent the stern necessity of administration within the limits of the resources of the owner; and that is fundamental in all administration. It has happened in your case that because the Government of the country has been a free



treasury, the expenditures have been very liberal -- not a bankrupt road expenditure, but an affluent ownership expenditure. The Chairman asked a little while ago whether your designation of some of these expenditures as involving ridiculous competition was an afterthought, after the expenditure was made, or a pre-thought, as it were -- a check which you think should have operated upon the natural optimism and buoyancy of a liberal treasury with plenty of money. After all, either the Commission should not have been formed, or, without attempting to express any ungenerous criticism of administration, it is primarily formed for the purpose of endeavouring to correct an existing situation which results in a burden heavier than it is believed the country can bear. Now, the country is faced with a very grave financial situation -- fixed charges which cannot be reduced; a heavy capital debt; large pension commitments; substantial subsidies to the provinces. Between one thing and another we will have a very disturbing excess of expenditure over revenue during the current twelve months, so disturbing a sum that the Government apparently is diligently looking for some means of lessening expenditure on the one hand and, I presume, of increasing taxation on the other so as to try to live within the budget. As a senior officer in charge of operation of this great system you have in your very excellently prepared memorandum candidly stated the story of the over-development of these railways without any legal action being taken whereby there could be a reduction of the capital by the usual means of receivership. Believing as you sincerely do



that there should be two competitive systems, have you a practical working basis for the two systems to run in competition whereby they will operate in harmony with the resources of the country and maintain necessary present services?

MR. HUNGERFORD: Well, I believe so.

SIR JOSEPH FLAVELLE: What is it? Perhaps it is given later on in your memorandum.

MR. HUNGERFORD: There is a little more; perhaps you would permit me to read it, and then we can carry on the discussion further. It does cover that in a general way.

Having regard to all the circumstances I believe the best ultimate results will follow the adoption of the following policies:

- (1) Maintain present status and organization of the two railways.
- (2) Cooperation between the two companies as far as feasible subject to the condition that in any case, neither company shall suffer loss, and that one or the other, or both, shall secure substantial advantage.
- (3) Continue the present policy of effecting every practicable economy in operation.

I would like to develop that a little more.

- (4) Take all reasonable measures to combat highway competition.
- (5) Restrict capital expenditures to:
  - (a) Items necessary for safety of operation.
  - (b) Items ordered by competent authority or obligations assumed by agreement.





- (c) Items which will undoubtedly earn a full return on investment.

In this connection I desire to endorse in principle the suggestion offered by Sir Henry Thornton that some commission be endowed with power,

- (a) To enforce reasonable cooperation between the companies, subject to the conditions outlined above.
- (b) To whom application would have to be made for a certificate of public convenience and necessity before any flotation of railway securities could be made.

THE CHAIRMAN: The railway securities to which you refer would include shares, as I gather from what Sir Henry said yesterday.

MR. HUNGERFORD: Yes, any securities. I do not suggest any particular commission, but I think somebody should have that power.

SIR JOSEPH FLAVELLE: You refer a little earlier to a competent authority. What do you mean by competent authority -- parliament?

MR. HUNGERFORD: No -- the Board of Railway Commissioners, for instance, in ordering a grade separation or something of that description, such as a public service commission. We are ordered by various public bodies to do various things.

COMMISSIONER LOREE: The ancient Egyptians had a very interesting custom. At the proper moment in the midst of their luxurious feasts a man would walk around the table with a skull mounted on top of a pole, and I



seem to be elected to do something of that kind. Who is it that is rocking the boat? Is it labour, or what is it? Take my own company; we will have earned this year, above our fixed charges, about \$100,000; if we had the wage scale of 1913 we could declare a 20 per cent dividend. Now, are all those things that you have elaborated subordinate to that question of wage scale, which has not been mentioned?

MR. HUNGERFORD: Well, the wage scale of the Canadian National, Mr. Loree, is just about the wage scale of all other American railways; they are almost exactly equal.

COMMISSIONER LOREE: That balloon has been blown up to such an extent that it is liable to burst at any time.

MR. HUNGERFORD: Quite so. We have been apparently successful in effecting some reductions any way.

COMMISSIONER LOREE: That is a grain of sand on the beach.

MR. HUNGERFORD: Yes, but it all helps.

COMMISSIONER LOREE: Where would you be if you had the 1913 wage scale? Have you figured it out?

MR. HUNGERFORD: No, I have not.

COMMISSIONER LOREE: Would all these deficits disappear?

MR. HUNGERFORD: No, I do not think so.

COMMISSIONER LOREE: Practically?

MR. HUNGERFORD: No, I do not think so. We are carrying too big a burden.



Mr. Hungerford

SIR JOSEPH FLAVELLE: What is your total wage and salary bill?

COMMISSIONER MURRAY: The estimate for 1931 is 89,000 men, \$142,000,000.

COMMISSIONER LEMAN: That would be wages only?

COMMISSIONER MURRAY: Yes.

THE CHAIRMAN: Does it vary very much from month to month?

MR. HUNGERFORD: Yes, very widely.

COMMISSIONER MURRAY: For 1929 it was 111,000 men, \$174,000,000.

SIR JOSEPH FLAVELLE: That is for employees only, it does not deal with your salary payroll?

MR. HUNGERFORD: No, I think that includes the whole.

COMMISSIONER LOREE: I figure generally that your inability this year to pay fixed charges will be about \$90,000,000.

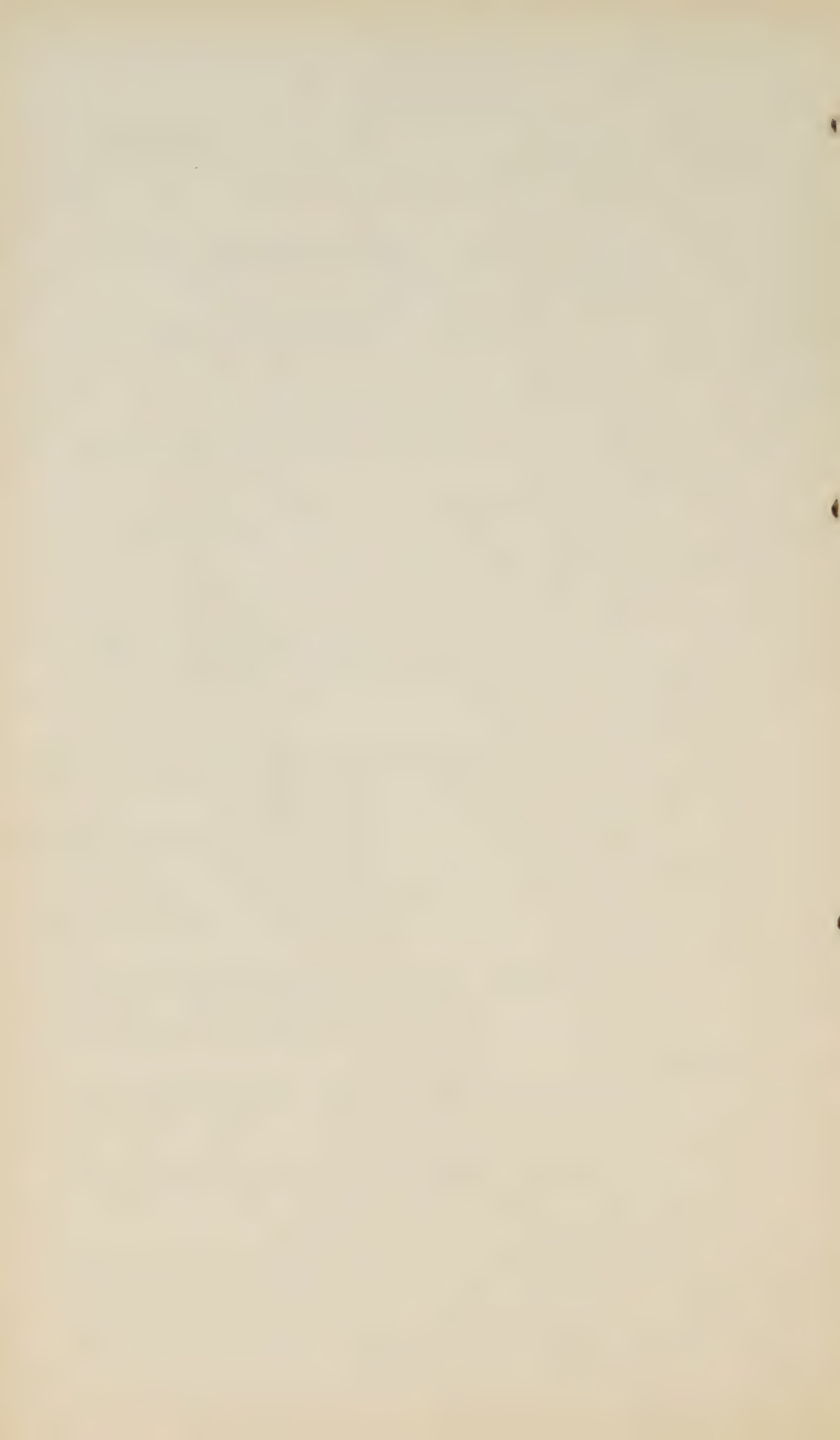
MR. HUNGERFORD: If you take into account the interest upon the money advanced by the government.

COMMISSIONER LOREE: Certainly, I am taking the whole thing. If you could go back to the 1913 payroll you would save about \$94,000,000, so you would just about put your boat on an even keel.

MR. HUNGERFORD: The wage scale on the government railways cannot be materially out of line with that of other railways.

COMMISSIONER LOREE: No, I was not attempting to reflect on individual roads. My own road is just as bad. We are simply trying to diagnose the disease from which the patient appears to be suffering.

MR. HUNGERFORD: All railways are suffering to some extent from what you say -- I think from too low freight rates. The roads in the States evidently thought that was





so because they applied for increased rates.

COMMISSIONER LOREE: No, that was not the reason. The fellows that wanted to bring about amalgamation were trying to find some means of saving themselves from receiverships regardless of the interests of others.

MR. HUNGERFORD: There is no doubt there has been an increase in wages. It has not been as great as in some lines of industry that are more responsive to change. The situation in respect to wages on the railways is very firmly fixed; it is a very difficult matter to secure an adjustment.

COMMISSIONER LEMAN: Have we that comparison in the record?

MR. FAIRWEATHER: Yes, it is included in the submissions which were made yesterday as a statistical compilation of the comparative wage rates for various classes of employees, from prewar days up to the present, together with a graphical analysis of the representative groups of labour compared with the cost of living index and the wholesale price index.

COMMISSIONER LEMAN: That runs from when to when?

MR. FAIRWEATHER: From prewar days, 1913.

SIR JOSEPH FLAVELLE: What is the difference in wages?

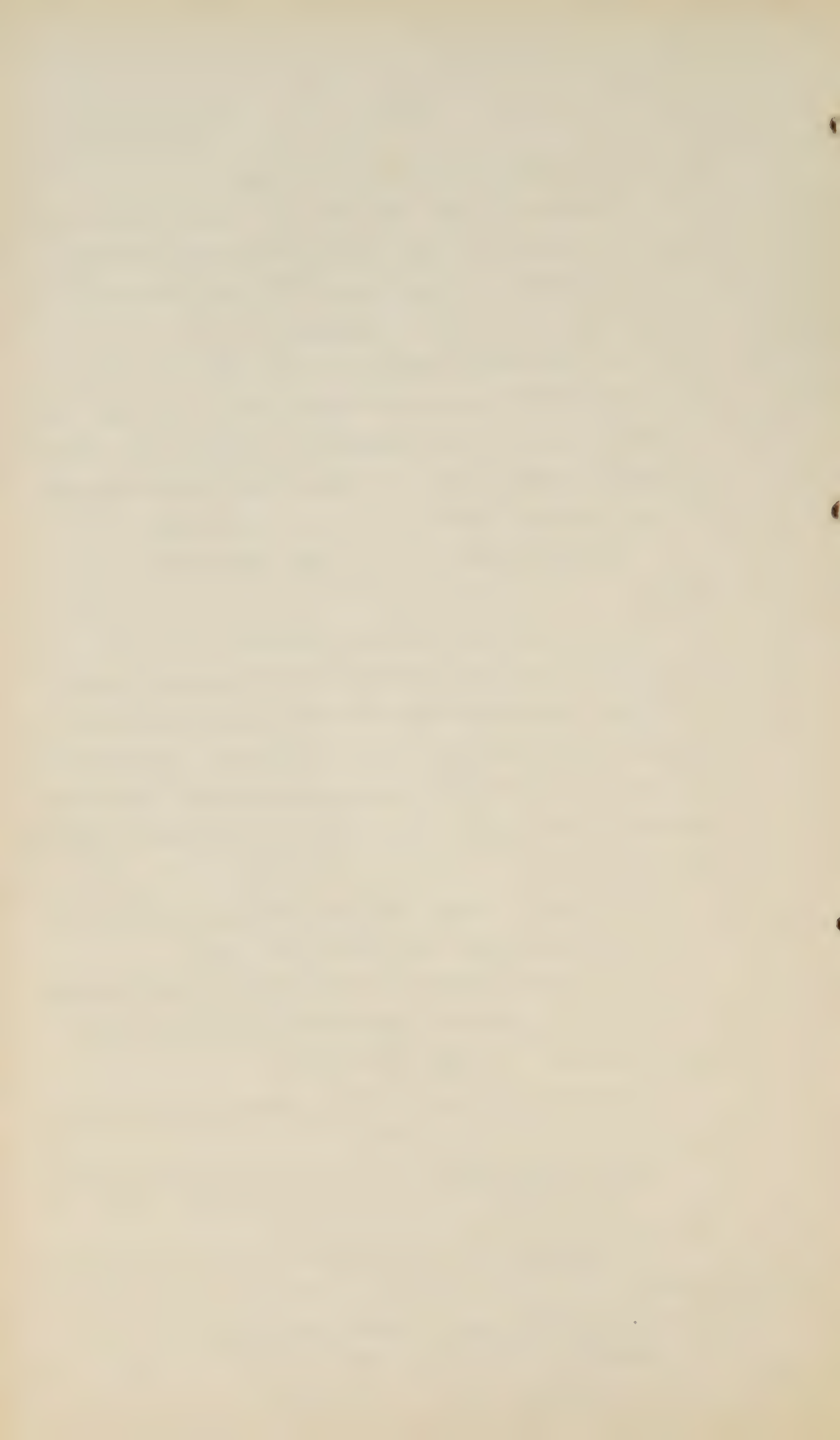
MR. FAIRWEATHER: It varies with practically every class of employee. On pages 53 and 54 --

SIR JOSEPH FLAVELLE: That is a memo we have not yet received.

COMMISSIONER MURRAY: It was not distributed last night.

MR. FAIRWEATHER: It was submitted to the secretary yesterday.

COMMISSIONER LEMAN: But when does your curve stop?



MR. FAIRWEATHER: Right today, that is in 1931.

COMMISSIONER LEMAN: But does it include the readjustment of wages effected in 1931?

MR. FAIRWEATHER: It does.

COMMISSIONER LEMAN: Because in industry there have been some drastic readjustments.

MR. FAIRWEATHER: This relates solely to railway labour.

COMMISSIONER LEMAN: I thought there was a comparison with other forms of industry.

MR. FAIRWEATHER: It is a compilation of the various classes of railway labour compared with the cost of living index and the index of wholesale prices.

THE CHAIRMAN: There is no average figure you could give, not as to nominal but real wages, between 1913 and today?

MR. FAIRWEATHER: It would be an extremely difficult thing to give a true average, sir. The trouble is that the relative amounts of the different classes of labour included at that time and at this time would change. But an approximation could be furnished.

SIR JOSEPH FLAVELLE: You give \$94,000,000, Mr. Loree, as the amount of the possible difference in the \$170,000,000 wage and salary scale. You mean they are more than double what they were?

COMMISSIONER LOREE: About three times, roughly.

SIR JOSEPH FLAVELLE: Does that include salaries as well as wages?

COMMISSIONER LOREE: Yes, sir.

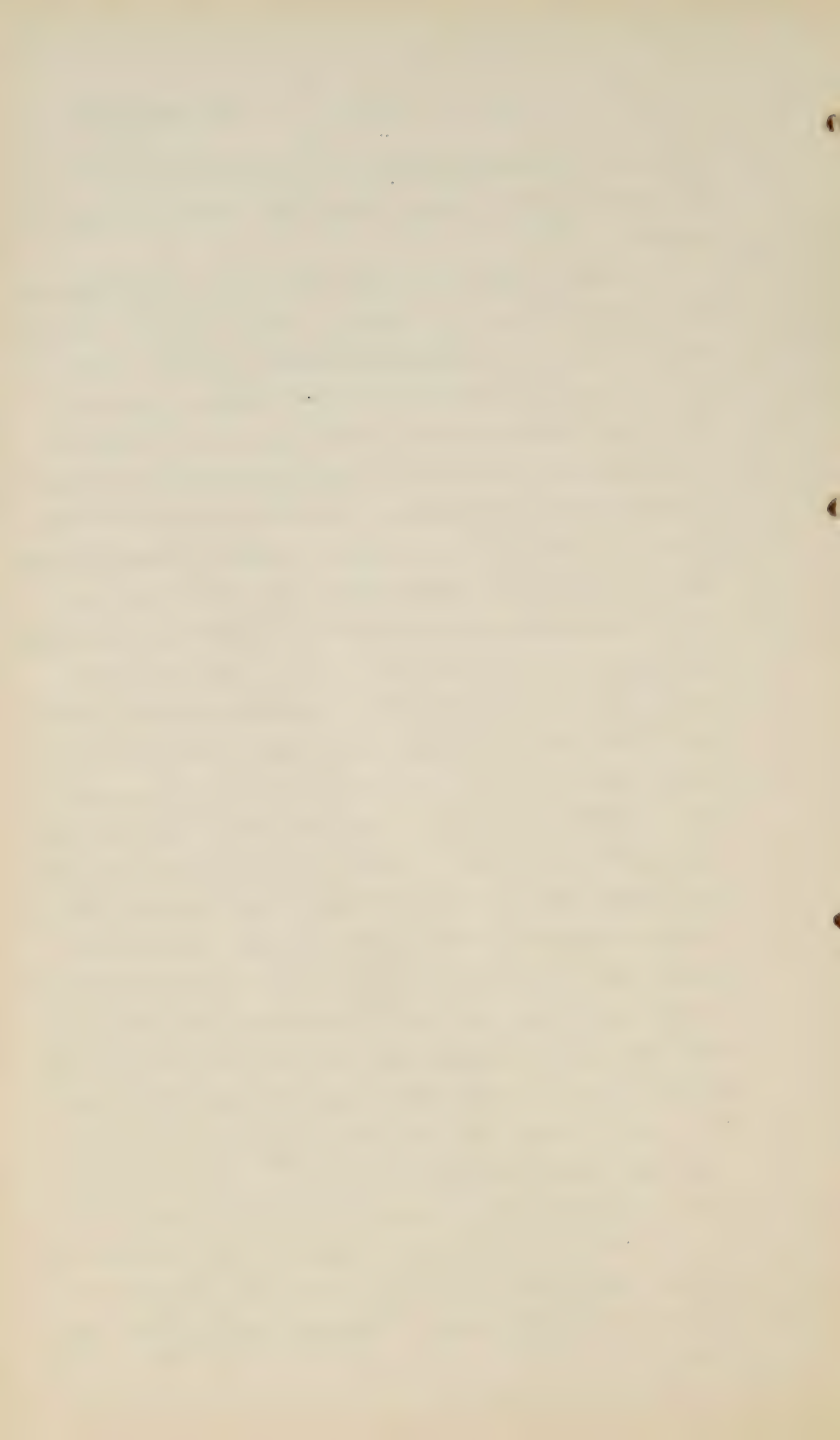
SIR JOSEPH FLAVELLE: Mr. Hungerford, Mr. Loree from his experience with American railways states that the



difference in wages and salaries for the same services is approximately almost three times as much as the scale prevailing in 1913.

COMMISSIONER LOREE: There is a great deal of complaint about maldistribution of wealth. I wonder sometimes there is not more complaint about maldistribution of tenor voices: we have not had any since Caruso stopped singing. When railroading started in England a hundred years ago a locomotive engineer got \$5.25 per week; he had an average daily run of 90 miles between two terminals; he worked about twelve hours a day; he took care of his engine -- he was a mechanic in the shop when he was not running his engine on the road. The Bank of England discount rate was 4 per cent. Today our better paid men get a little over \$300 a month; they work eight hours a day; they are waited on as though they were gentlemen of the Court; they bring their engine to the cinder pit and the hostler takes it off their hands, puts in sand and water, draws the fire and does all the rest of the work; the locomotive is inspected for them at the roundhouse; they are just riders; they get thirteen times as much wages as the locomotive engineer did a hundred years ago. The discount rate of the Federal Reserve Bank this last year has been a little under 2 per cent; capital is getting one half the return that it got a hundred years ago. Yet you have got this constant complaint about maltreatment of labour, and there is not a man in public life nor in the pulpit that says a word about it; nobody discusses it at all.

MR. FAIRWEATHER: Perhaps to clarify the point raised by the Chairman, I may say that I made a rough approximation to this point; that is, what was the actual increase from prewar times to the present in Canadian railway labour wages,





and I should estimate that the relative figures would be about 52 in prewar times and about 100 today. So that there would be --

THE CHAIRMAN: That is allowing for the difference in the cost of living?

MR. FAIRWEATHER: No, that is actual dollars.

THE CHAIRMAN: That is the monetary difference?

MR. FAIRWEATHER: Yes, sir.

THE CHAIRMAN: Railway labour with you, I should gather has a much larger denotation than with Mr. Loree. I fancy, Mr. Loree, your figures must be derived from a smaller field.

COMMISSIONER LOREE: Just my own roads.

THE CHAIRMAN: I do not mean that so much, I mean the cost of labour.

COMMISSIONER LOREE: No, I have taken all the labour.

THE CHAIRMAN: You are covering all kinds of labour used in railway work?

COMMISSIONER LOREE: Yes. Take the experience of the Delaware and Hudson. The men on our payroll in 1913 on a ten hour day worked 38,263,000 man-hours; in 1930 on an eight hour basis they worked 28,689,000 -- a reduction of 25 per cent. Now, the wages paid out for 25 per cent less work rose from \$9,475,000 in 1913 to \$20,222,000 in 1930, or 113 per cent -- we paid 113 per cent more money for 25 per cent less work. The wage per hour rose from an average of 25 cents to an average of 71 cents, or 184 per cent. That is, for every dollar we were paying out in 1913 we paid out \$2.84 in 1930.

MR. HUNGERFORD: There was this difference in condition, Mr. Chairman, that might account for the discrepancy in the figures. As applied to the Canadian National, the





western territory, that is to say western Canada, had higher rates before the war than had eastern Canada, and that would tend to raise the average considerably. There was a material difference, for instance, machinists received from 37 to 38 cents in the east, but in the west they received 54 cents.

THE CHAIRMAN: What about wages before the war? Take the east for example; what about railway wages before the war as compared with similar wages on the American lines?

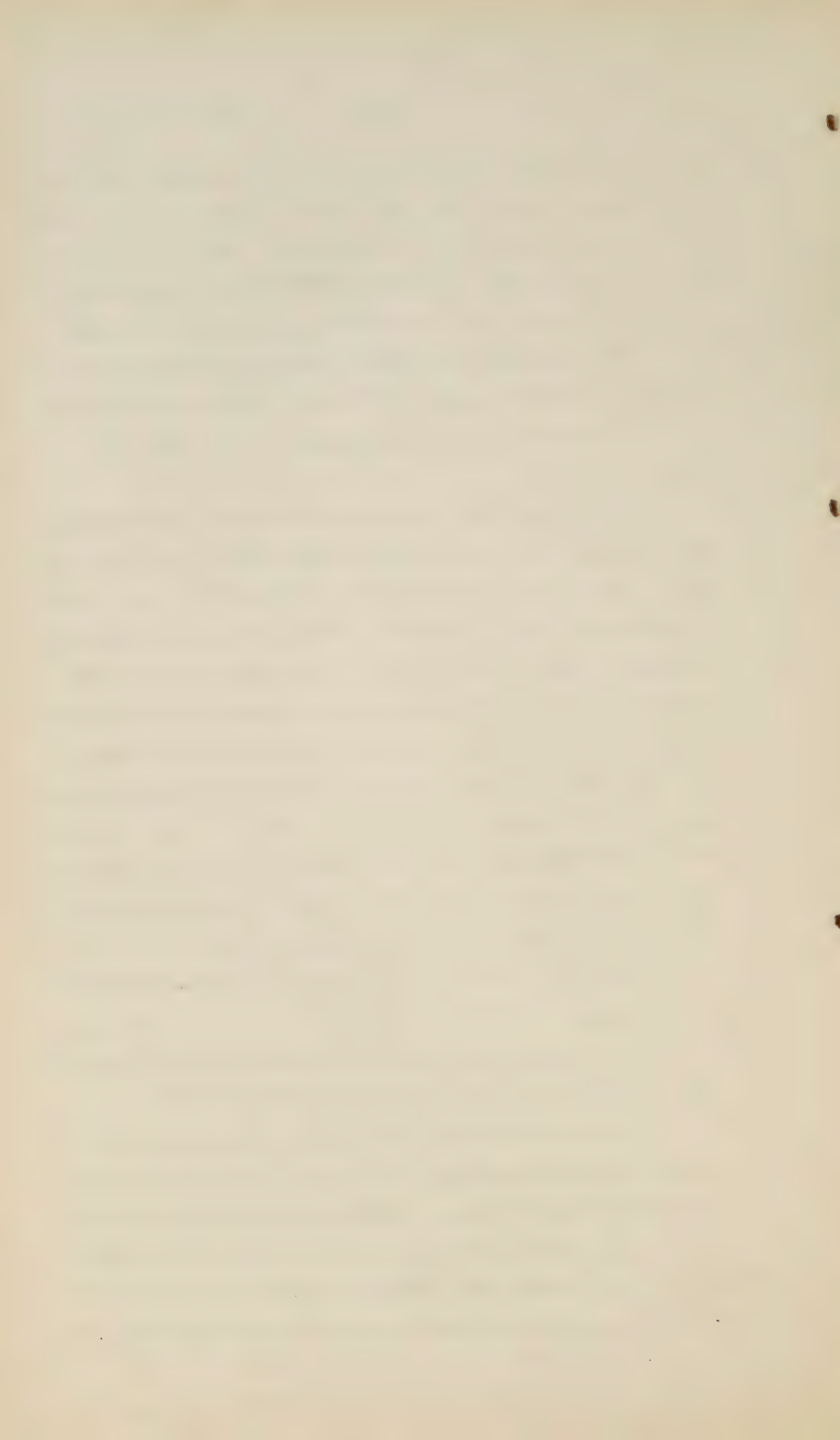
MR. HUNGERFORD: There has been general uniformity. Wage movements are progressive, either forward or back. Sometimes roads in one section of the country are a little bit in advance of those in another section, but in general over a period of twenty years there has been no very material difference between the rates paid on Canadian and on American lines. That is not true of every group, it is not true at any particular time 100 per cent, but on the average and in general that is true.

THE CHAIRMAN: But there is that distinction, that in the west there was a higher rate than that generally prevailing in the east and in the States.

COMMISSIONER LOREE: No, the same difference exists in the States.

MR. HUNGERFORD: Yes, the rates west of the Mississippi are materially higher than those in the east.

COMMISSIONER LOREE: The Kansas City Southern in 1913 worked 16,641,000 man-hours; in 1930, 11,211,000 - a reduction of 32.63 per cent. It paid out in wages in 1913 \$4,333,000, and in 1930, \$7,675,000. That is, for thirty-two and two thirds less work they paid out 77.12 more money; and the rate per man-hour increased from 26 cents to 68 cents, or



161.5 per cent. That is, for every dollar we paid out in 1913 we were paying \$2.61 in 1930.

LORD ASHFIELD: They may have run more miles.

COMMISSIONER LOREE: This covers section men, shop men -- everybody on the payroll.

LORD ASHFIELD: I thought you said the amount of work done was 50 per cent less.

COMMISSIONER LOREE: Nine hours.

LORD ASHFIELD: The earnings are not greater?

COMMISSIONER LOREE: I do not think so, your Lordship. The experience of the American roads has been that about 1900, over distances such as from Kansas City to Port Arthur on the Gulf of Mexico or from Chicago to New York, the average speed of a freight car was about six miles an hour, and of a freight train between terminals about thirteen miles an hour. The average speed of a freight car today runs up to nearly ten miles an hour, but the average speed of the train on the road continues to be about thirteen miles an hour. So the improvement has all been due to the elimination of waste in the yard work.

LORD ASHFIELD: Would the larger train help on the ton mile basis?

COMMISSIONER LOREE: Yes, through the heavier engine and capital investment, but not owing to anything the men are doing.

LORD ASHFIELD: No, you are running just the same number of miles but with a bigger unit. My experience of labour is that they argue they have greater responsibility arising out of larger locomotives and more complicated machines.

COMMISSIONER LEMAN: In reference to the extent of the



field of competition which you referred to, Mr. Hungerford, in this memorandum, I understand that you do not favour duplication of lines where two lines cannot secure sufficient traffic to warrant the capital expenditure; is that right?

MR. HUNGERFORD: As a general principle, yes, subject to local requirements.

COMMISSIONER LEMAN: We understood yesterday that it might be a constructive measure to pool the passenger traffic in order to secure better results, inasmuch as this traffic was a source of loss.

THE CHAIRMAN: Competitive passenger traffic?

COMMISSIONER LEMAN: Yes. Do I understand that that also meets with your approval?

MR. HUNGERFORD: Yes.

COMMISSIONER LEMAN: Now, if I understood rightly, you gave us yesterday, Mr. Hungerford, an estimate that 75 per cent of your traffic was non-competitive.

MR. HUNGERFORD: It was the division of passenger traffic, sir, between competitive and non-competitive. It was purely a guess because I had no figures.

THE CHAIRMAN: I understood you to say your impression was that the figure would be higher in the case of freight.

COMMISSIONER LEMAN: That competitive traffic would be only 25 per cent.

THE CHAIRMAN: Competitive passenger traffic. But I rather understood Mr. Hungerford to say that his estimate for non-competitive traffic would be higher in the case of freight than in the case of passenger; or was I wrong about that?

MR. HUNGERFORD: I would hazard the guess now that that is substantially correct.





LORD ASHFIELD: I rather gathered from what he said yesterday that there was not much to be gained from the pooling of freight traffic.

COMMISSIONER LEMAN: Do you venture an opinion on that, Mr. Hungerford?

THE CHAIRMAN: I rather like to put it this way, I do not know whether it meets with your approval or not: It is just an impression you got, derived from your general acquaintance with the subject.

MR. HUNGERFORD: It is my impression, and it is nothing more than an impression.

THE CHAIRMAN: An impression of 25 and 75 with regard to passenger traffic, and in the case of freight traffic the non-competitive share would be a little bit higher?

MR. HUNGERFORD: That is my impression, quite unsupported.

THE CHAIRMAN: I understand.

COMMISSIONER MURRAY: Might I put it this way? I find from the figures that the revenue in 1930 of the Canadian Pacific and the Canadian National for passenger traffic was nearly \$100,000,000; and the deficit in the two services about \$25,000,000. There has been a steady loss in the last four years in the passenger service on all lines. The year before, 1929, a good year, brought about \$114,000,000 revenue to the two lines, and a loss of about \$15,000,000. While I was away I notice by the record that Mr. Fairweather put forward a proposal for pooling passenger traffic which is far broader than that which you suggest. It was something like this: A transportation company would be established, and this company would determine the quantity and quality of service, would control advertising, would issue and sell tickets,



would issue bonds to each company for the property taken over, would pay for the transport of the cars at cost, the total car mileage being equally divided, as well as the total profit and loss. Now, passenger service is one of the big problems of the whole deficit. Is a broader plan like that practical, and would it be fair to both railways do you think? I am putting it in a general way.

MR. HUNGERFORD: That of course would be perhaps a feasible arrangement, but I think it was suggested more for the purpose of exploring all possible avenues. But in my view at least it would introduce an unnecessary degree of complication, because when you come to the non-competitive passenger service, as represented by the service on lines that have not common termini with the other railway, why, you can adjust that service to the cheapest basis possible that will be approved by the Board of Railway Commissioners, and you can do no more. That is the policy we work on now; that is the condition today. Now, if you were to throw that all in with the competitive business you would be subject to just the same influence, you would be setting up a machine that would not be any more effective so far as that traffic is concerned than the machinery which exists today. My view is it would be an unnecessary complication.

COMMISSIONER MURRAY: What would be your method of separating the competitive from the non-competitive?

MR. HUNGERFORD: Limit the pooling feature to train services starting and terminating at a common point, or running through common points.

SIR JOSEPH FLAVELLE: Not pooling, but making arrangements for each one carrying on its own service according to the agreed plan. Is that what you mean?



MR. HUNGERFORD: Pooling has been developed in various forms, but basically it is something like this. You take a record of the earnings of both companies between those points and establish the relative percentage agreed upon between themselves that they will maintain for a period. Then you put all the earnings from that particular service of both lines into a pool and divide the total on the percentage basis agreed upon. There are variations from that, but that is the general fundamental principle, and it is employed quite extensively. But there is another variation in connection with that. The competitive service with respect to passengers is between the terminal points, but the intermediate travel that originates at the originating terminal and ends at some intermediate point, or is picked up at some intermediate point and set down at another intermediate point, or is picked up at an intermediate point and set down at the terminal; sometimes that is included in the pooling feature, and sometimes it is excluded. It is just a matter of arrangement, but the underlying principle is the same.

THE CHAIRMAN: You were not contemplating a separate corporation?

MR. HUNGERFORD: No, sir. I do not think anything is to be gained by setting up a lot of machinery for a relatively small thing.

SIR JOSEPH FLAVELLE: You want something that does not interfere with the operation of each property on its own account?

MR. HUNGERFORD: I think that is a desirable feature.

COMMISSIONER MURRAY: Pooling with regard to the telegraph lines would be on entirely different principles; you would practically have amalgamation?





MR. HUNGERFORD: Yes, in connection with the telegraph lines and some of those other things like steamships and possibly hotels. In those cases I think new holding companies could be created in which the respective companies would own proportionate amounts of stock and have a common administration. We have had for a long time in Toronto a joint arrangement with respect to the passenger terminals. They are treated as a joint enterprise under the Toronto Terminals Company, in which each of the railway companies own 50 per cent of the stock. The arrangement works out all right. There is still the principle of competition maintained, but for that particular purpose we work together in harmony. That principle can be extended. I am rather in favour of its being done. I think something could be saved along that line. The telegraph service is now confronted with more intensive competition from the extension of telephones, radio, and one thing and another, they are entering a new sphere, and something must be done in order to protect both telegraph companies. For the Pacific Coast Steamships I favour the erection of a holding company. Hotels are rather more of a problem, but I see no objection to its being done anyway if anything can be saved thereby.

I should like, Mr. Chairman, to refer to one or two minor points if I may.

THE CHAIRMAN: You spoke of economies in one of your headings and said you would like to develop it later.

MR. HUNGERFORD: I think you have before you in this last submission a statement showing what has been accomplished progressively up to the present time by different economy measures.

COMMISSIONER WEBSTER: Before you leave this matter,





Mr. Hungerford, have you not made arrangements with the Canadian Pacific for freight and passenger traffic at the Atlantic ports in connection with the ocean steamship business? Do you know what those are?

MR. HUNGERFORD: In a general way, yes; I handled the deal to some extent. Formerly the Canadian National operated with the Cunard, the Anchor-Donaldson and the White Star Lines, not with the Canadian Pacific. The Canadian Pacific --

COMMISSIONER WEBSTER: Was that under a new agreement, or had it anything to do with any previous existing understandings?

MR. HUNGERFORD: There was a long succession of agreements as between the Grand Trunk on the one hand and the Canadian Northern on the other, and these agreements and arrangements have varied in almost every conceivable way from time to time. This present agreement with the Canadian Pacific steamships simply makes their space available to shipments routed by the Canadian National under conditions substantially equal to those in connection with the other steamship lines.

COMMISSIONER WEBSTER: It is simply obligatory, or is all your freight now not to be put on the Canadian Pacific boats?

MR. HUNGERFORD: No, they are just put on a condition of parity with the other lines.

COMMISSIONER WEBSTER: Has not there been a condition of parity in the past?

MR. HUNGERFORD: No. For instance, there was no space reserved on some of the boats before, but there is now.

COMMISSIONER WEBSTER: But the Canadian Pacific would take all the traffic you sent them before, wouldn't they?



MR. HUNGERFORD: And they would keep the rail movement as far as they could too.

COMMISSIONER WEBSTER: But who will carry freight that comes from you, for example, the C.P.R.?

MR. FAIRWEATHER: Might I say a word in regard to that, sir? The president requested me to make a special study of the relation between the ocean carriers and the Canadian National Railways. I carried that on during the summer of 1931 and the fall of 1930. The situation I found was something like this. The Canadian National had a close working agreement with the Cunard, the Anchor-Donaldson and the White Star. There was no contract but just a close co-ordination between the services.

COMMISSIONER WEBSTER: No written contract?

MR. FAIRWEATHER: There was no written contract. There was in connection with certain services out of Halifax, certain subsidies paid on east bound sailings; that is a mere detail; but generally speaking there was no written contract. The present situation was simply a continuation of the period when there had been written contracts, which had been abrogated. The working agreement consisted of the railway company soliciting traffic, other things being equal, for movement by the Anchor-Donaldson or White Star Lines; that is, working in cooperation with the soliciting agents of the steamship companies, and similarly the steamship companies were supposed to solicit in cooperation with the railway companies for movement by the rail lines. It looked on the face of it to be a very sensible sort of agreement competitive with the Canadian Pacific. Sir Henry was afraid that with the world situation in shipping, and particularly in view of the fact that the White Star was in rather deep



water financially, our competitive situation would be damaged. That was the occasion of this study.

I found out as a result of it that a good deal of this advantage was illusory. As a matter of fact shippers would discriminate between rail services and steamship services, and the result was we were handling quite a considerable volume of business to and from Canadian Pacific steamships, and the Canadian Pacific, although they maintained a dominant fleet on the Atlantic sailing to Canadian ports, found themselves under the necessity of doing at least one fourth of their business with their competing steamship lines, the Anchor-Donaldson, the Cunard and the White Star.

The net result of the study was simply that so far as steamships were available at the berth there was very little competitive advantage in the coordinating of the steamship and the rail service so long as the two were adequate. Shippers would discriminate, and did discriminate, between the two. They would ship Canadian National to a Canadian Pacific boat, and they would ship Canadian Pacific to a White Star boat, and vice versa. The net advantage that the Canadian Pacific had succeeded in establishing was only a matter of five per cent. That being the case, to the extent to which the Canadian Pacific could guarantee us adequate berthings, there was no disadvantage to the Canadian National in harmonizing our soliciting with theirs. And that is really all it is; it is an agreement whereby we harmonize our soliciting with the Canadian Pacific's.

COMMISSIONER WEBSTER: You have a written agreement with the C.P.R.?

MR. FAIRWEATHER: Yes, there is a written agreement.

COMMISSIONER WEBSTER: May we see that?





MR. FAIRWEATHER: I cannot speak for the executive, but I can see no reason why it should not be available.

COMMISSIONER WEBSTER: It comes into our study of this whole subject. In other words, is it a correct inference that this arrangement will broadly tend to create a monopoly in the North Atlantic?

MR. FAIRWEATHER: Absolutely not.

COMMISSIONER WEBSTER: Will the Cunard and the other boats continue to get any fair proportion of the business?

MR. FAIRWEATHER: Yes sir, they will. This is the reason. When I analyzed the traffic that these boats actually handled, I found this surprising fact, that the majority of the traffic did not have a direct rail haul connected with it. You see, Montreal is a great gathering and manufacturing city. Traffic comes into Montreal, goes into the pool there, and is then shipped from the warehouses to the boats. To a considerable extent Montreal creates a traffic pool in which the steamships participate, and in which they will always participate. Therefore there is no fear of a monopoly.

COMMISSIONER WEBSTER: Is there not?

MR. FAIRWEATHER: Not the slightest.

COMMISSIONER WEBSTER: Is there not more of a monopoly now than under the old conditions? It seems as though the C.N.R. system were taking a rather remarkable step in throwing business to the Canadian Pacific.

THE CHAIRMAN: You mean to the Trans-Atlantic ships?

COMMISSIONER WEBSTER: Yes; to the disadvantage of these other ships which have been on the ocean routes for years.

THE CHAIRMAN: You realize of course that that subject



is not before us?

COMMISSIONER WEBSTER: Surely sir, it affects our railway situation.

THE CHAIRMAN: I mean to say insofar as it affects trans-Atlantic ships.

COMMISSIONER WEBSTER: But it affects our railway situation.

THE CHAIRMAN: Quite so.

SIR JOSEPH FLAVELLE: I wonder if I might help you there. One of my activities for the last fifty years has had to do with grain. There is a very great misapprehension concerning the movement of grain, and this was admirably stated in Winnipeg recently by Mr. Sanford Evans.

These liners come to various ports, and they must carry either water ballast or grain. What happens every week is that the liners offer shippers of grain accommodation for so many hundreds or thousands of tons. The contracts are made more frequently by the seller of the grain direct with the steamship than by the railway. The railway becomes secondary in this sense, that it will take the product to the port. Therefore the Canadian Pacific, as has been stated here this morning, carries grain to the seaboard, where, although it has its own vessels, the grain goes to a competitive vessel, because the competitive vessel offers a lower rate to the shipper and the shipper has chosen to accept it. One of the difficulties that all ports are presented with is that over a twelve month period -- I am quoting Mr. Sanford Evans; I had not known this before -- the average cargo rate on liners is lower than the average cargo rate on tramps, because the former must have cargo of that type -- they prefer cargo at a very low rate rather than fill their tanks with water



ballast.

Now, as to the question you raised with respect to the Canadian Pacific and the Canadian National, I presume that package freight originates on the railway on a through bill of lading; grain does not.

MR. FAIRWEATHER: No, Sir Joseph, it is package freight I am speaking of. A surprisingly large proportion of the traffic terminates in the cities.

SIR JOSEPH FLAVELLE: I know it has been widely commented upon that we were using American ports sixty per cent as against Canadian ports. That condition simply arises from the fact that American liners are sailing for ports to which there are no liners sailing from Canada, and sometimes even if sailing for the same port you can get a better rate on the liner from New York than on the liner from a Canadian port. But undoubtedly on the American lines there is a greater preponderance of Canadian tonnage than on Canadian lines, not because the Canadian exporter desires to favour the American lines, but because he gets cheaper space for his purpose.

COMMISSIONER LEMAN: Do you remember the proportion of wheat carried on regular liners as compared with tramps?

COMMISSIONER MURRAY: It varies very much according to the season.

COMMISSIONER LEMAN: But the total?

SIR JOSEPH FLAVELLE: I should think at the present time conditions would greatly favour the use of liners, because they are shy of freight.

COMMISSIONER WEBSTER: I will drop the subject. I might finish by saying this --

THE CHAIRMAN: Don't drop it.

COMMISSIONER WEBSTER: It seems to me that this new





development, which the public know very little about, is rather perilous to our trade with Europe, because if you drive the Cunard boats off the Atlantic, as you are very likely to do, it is going to leave the Canadian Pacific in monopolistic control of that trade. That is what is in my mind. Why has the C.N.R. lent itself to such an arrangement? You believe in competition in railway business. Why not extend the principle for the general interest of Canada to the preservation of working arrangements with the Cunard and White Star lines which have been satisfactory and harmonious? You have cut off your connections with them.

MR. FAIRWEATHER: No, no, absolutely not.

COMMISSIONER WEBSTER: You surely have. Will you let us have the agreement that you have entered into with the Canadian Pacific regarding this traffic?

COMMISSIONER LOREE: Mr. Hungerford, may I clear up my mind in regard to a couple of questions? I find your answer with regard to the abandonment of equipment. Has that account been fairly well cleared up, or are there substantial amounts of road property and equipment abandoned that have not yet been charged down?

MR. FAIRWEATHER: There is nothing in equipment, sir, and I think that as regards road property there is a little that I know of, but it is not anything substantial.

COMMISSIONER LOREE: Another question is with reference to furnishing a statement -- I have not seen it yet -- as to the age of the equipment. Have you reached practically the rhythmic cycle of retirements, or is there still considerable equipment that is marked for retirement and not for maintenance?

MR. FAIRWEATHER: With regard to that, Mr. Loree, I





would say that in units we have reached a fairly rhythmic point; that is instanced by the fact that the average age of our equipment is about fifteen years. But when it comes to a value proposition, there is a disturbing factor in that our newer equipment was purchased during a period of high prices, and of course that will to a certain extent distort the rhythmic picture in future so far as it is expressed in money. Expressed in units, I think it would be fairly even; in money, it would be distorted by that condition.

COMMISSIONER LOREE: Among the statements furnished us was one covering some thirty-two subsidiary companies with an aggregate capital of \$55,504,946. The profit and loss account seems to indicate that in the last eight years they have not only earned no interest on that amount, but that they have failed to meet their operating expenses by \$1,446,677. How would you propose to deal with the entire group?

MR. HUNGERFORD: I suppose each individual one would be subject for treatment in itself.

COMMISSIONER LOREE: Naturally.

MR. HUNGERFORD: I don't think they should be lumped together.

COMMISSIONER LOREE: Are they practically all booked for abandonment?

MR. HUNGERFORD: I would not say that.

COMMISSIONER LOREE: You could stand a loss of \$2,750,000 a year for interest and another \$250,000 for operating expenses.

MR. HUNGERFORD: Have you the names of the companies?

COMMISSIONER LOREE: No, I have not.

MR. HUNGERFORD: We will try to get them. As a matter



of information, I should like to mention in regard to capital expenditures during the period that the corresponding rehabilitation problem on the Canadian Pacific took place between the years 1900 and 1912, or just up to the beginning of the war when labour and material costs were substantially half of what they were during the period in which the Canadian National had to do the same thing.

THE CHAIRMAN: That is the period 1918 to 1923?

MR. HUNGERFORD: About that. I am leading up to it. I said a little while ago that this rehabilitation involved considerable charges to operating expenses during this period, and that at the present time we might consider that the deferred maintenance was fairly well disposed of. Consequently there will not be that recurring charge in the future, and that would help the Canadian National situation materially to that extent.

The next feature is that of capital expenditures. Quite apart from any question of regulation or limitation of capital expenditures, I can see no need for anything like the expenditure that has been incurred during the years in which it occurred. My guess is that perhaps \$20,000,000 a year for all purposes on the average will well take care of the situation. We have certain commitments at the present time.

SIR JOSEPH FLAVELLE: None of that absorbed into maintenance?

MR. HUNGERFORD: No, this would be an increase in the capital account. So far as we can see at the present time the normal requirement is as stated by Mr. Fairweather this morning, about \$12,000,000 a year for all of these incidental things that have to be carried on. In addition to that we have certain commitments; we have got certain unfinished



hotels, certain unfinished branch lines, and we have the Montreal terminal question to be disposed of. For the moment we have equipment enough, and we can afford to let that situation rest.

THE CHAIRMAN: So far as equipment is concerned?

MR. HUNGERFORD: Yes; but as soon as we return to a normal trend of affairs we will be under the necessity of purchasing reasonable amounts of additional equipment in replacement of the stuff that will be retired. But that probably will not occur for two or three years, and in the meantime these other obligations of ours will have been pretty well taken care of by this margin between the twelve and twenty million dollars.

COMMISSIONER LEMAN: \$20,000,000 for how many years?

MR. HUNGERFORD: For the next five years anyway. That is always contingent upon not embarking upon some new enterprise of a major character.

LORD ASHFIELD: Ignoring the "roar" to a certain extent?

MR. HUNGERFORD: Yes, sir.

SIR JOSEPH FLAVELLE: Mr. Hungerford, I am still anxious about the main question, for it all resolves itself into: What are we going to do. Now, in connection with these isolated illustrations here and there, you hope there will be no more expenditures, or that they will be limited to a certain amount. But still that does not deal with the broad question: How are the railways to operate so as to constitute a healthy operating condition?

(a) They must earn enough to pay for the outgo;

(b) They must earn something towards the payment of fixed charges.





Mr. Loree has raised one question which is very pertinent in the railway situation in the United States, namely, labour. I would add to it salaries and all general administrative expenditures. There are three parties to this general railway situation in Canada:

(1) The owner, whether the owner be the Canadian Pacific or the Government of Canada.

(2) The people who use the railways and who require them. As you very properly observed, we cannot develop without the continued use of the railways; or, as His Lordship has said, the railway is something that must be run, it is not like an industrial business that can close up for a number of months if necessary.

(3) The great army of people who are employed on the railways.

Now, all three have a common interest. The owner desires to get back some return for the money which he has invested; the people for whom the railways are built desire service; and the people who are working on the railways desire reasonable wages and salaries for their services.

On the other hand, each of them must agree to suffer in common, if suffering is to be endured. The public cannot have the service that they "roar" for. The fact that they roar is not an adequate reason for giving a fancy service if the conditions of the country will not permit such service to be provided in justice to the owner and to the work people. It is not fair to the country that the owners, whether the Canadian Pacific or the government, should want an inordinate return upon the money which they have in the enterprise; and it should not be proper for those who work to be other than sharers in the anxiety and concern for the enterprise with



which they are identified.

Now, generally I will accept what you say as true, that as far as highly organized union labour is concerned, broadly speaking, we will be governed by the general conditions prevailing over the American continent. But it is rather noticable throughout all this phase of the railway trouble over the continent an administrative servant of the government of the United States persisted last year in saying that there must not be any reduction in wages, and that here the two railway corporations were quiescent until recently, when a Board of Conciliation was appointed to deal with the problem. The findings of that Board are now before the men, and if accepted they will go into effect; if the men do not accept them I suppose there will be a struggle, whatever form it may take.

MR. HUNGERFORD: That reduction is in effect.

SIR JOSEPH FLAVELLE: It is in effect because you are not paying the wage.

MR. HUNGERFORD: Yes.

SIR JOSEPH FLAVELLE: Surely we ought to turn to the railways themselves for guidance, for the kind of constructive help that is not on the defensive with respect to something done in the past, but that enables us to take an intelligent view of what can be properly done. In these circumstances to whom ought we to look except the railways? Now, you and I have known each other for a number of years, and I greatly respect the honesty of purpose which has been present in your career during all these years. But here is a situation which cannot be met by merely saying: We have done a really very good piece of work. By reason of the cost of doing that piece of work the burden has become so great that



this Commission is sitting, and we come to people like yourself, the senior responsible officer in this great corporation, to ask: In what way can we get a coordinated thing that will hang together, whereby the country can be relieved of a burden that they say they cannot bear?

MR. HUNGERFORD: I should like to suggest for your consideration, Sir Joseph, that the explanation in respect to the doing a good job but the cost becoming so great that it cannot be borne, really is this. There was a situation handed over to the management of the railway, and if the management had not pursued that course of action with respect to capital expenditures and improvements of the property, the burden would have been greater today than it is. In other words, the savings in operating expenses as a result of the improvement in the physical condition of the property, plus of course better organization and all that sort of thing, represents an amount considerably in excess of the interest on the additional capital that has been invested.

I rather pride myself on this, Sir Joseph, that I am a good enough citizen to advocate any course of action, irrespective of how it may affect me personally, if I thought it was in the interests of the country. But this is a situation that has not been created by this management. It was handed to them, and they were instructed to go ahead and do the best they could with it. We have done that within the limits of our intelligence and with the usual percentage of mistakes, and all that sort of thing. But the management was not responsible for these premises. I am not seeking to defend the management at all. I know the question before the Commission is as Sir Joseph has said: What can we do now to improve the situation? My answer to that concretely is this: All that





you can do in effect under the present conditions is to do substantially what I have outlined -- economize in every reasonable way.

THE CHAIRMAN: May I interrupt you there for a moment. You have not yet developed, as you said you were going to, that point of economy.

MR. HUNGERFORD: Oh yes I have, sir.

THE CHAIRMAN: Very well. Please go on. Economize, and then --

MR. HUNGERFORD: Economize in every possible way; and coupled with that the endorsement of Sir Henry's suggestion to the extent of some authority being created to enforce reasonable measures of cooperation, because it is quite possible that cooperation for one reason or another would not be carried out to the extent that would be desirable in the national interests. In a particular case it might be an advantage to one company and perhaps not to the same extent to the other, and in the next case that situation might be reversed. But I do think in the national interests, speaking from that standpoint, there is justification for having some authority charged with seeing to it that reasonable measures of cooperation are enforced. And further, that no unnecessary or unreasonable expenditures be incurred.

But beyond all that there does not seem to be any royal road by which this situation can be solved. I know that a certain figure has been set up and more or less generally discussed about the results of amalgamation. But when I analyze those credit items I find -- at least to my satisfaction and I think the satisfaction of others -- that a great many of them are very doubtful of attainment; and in a general way I believe a very large proportion of all the real





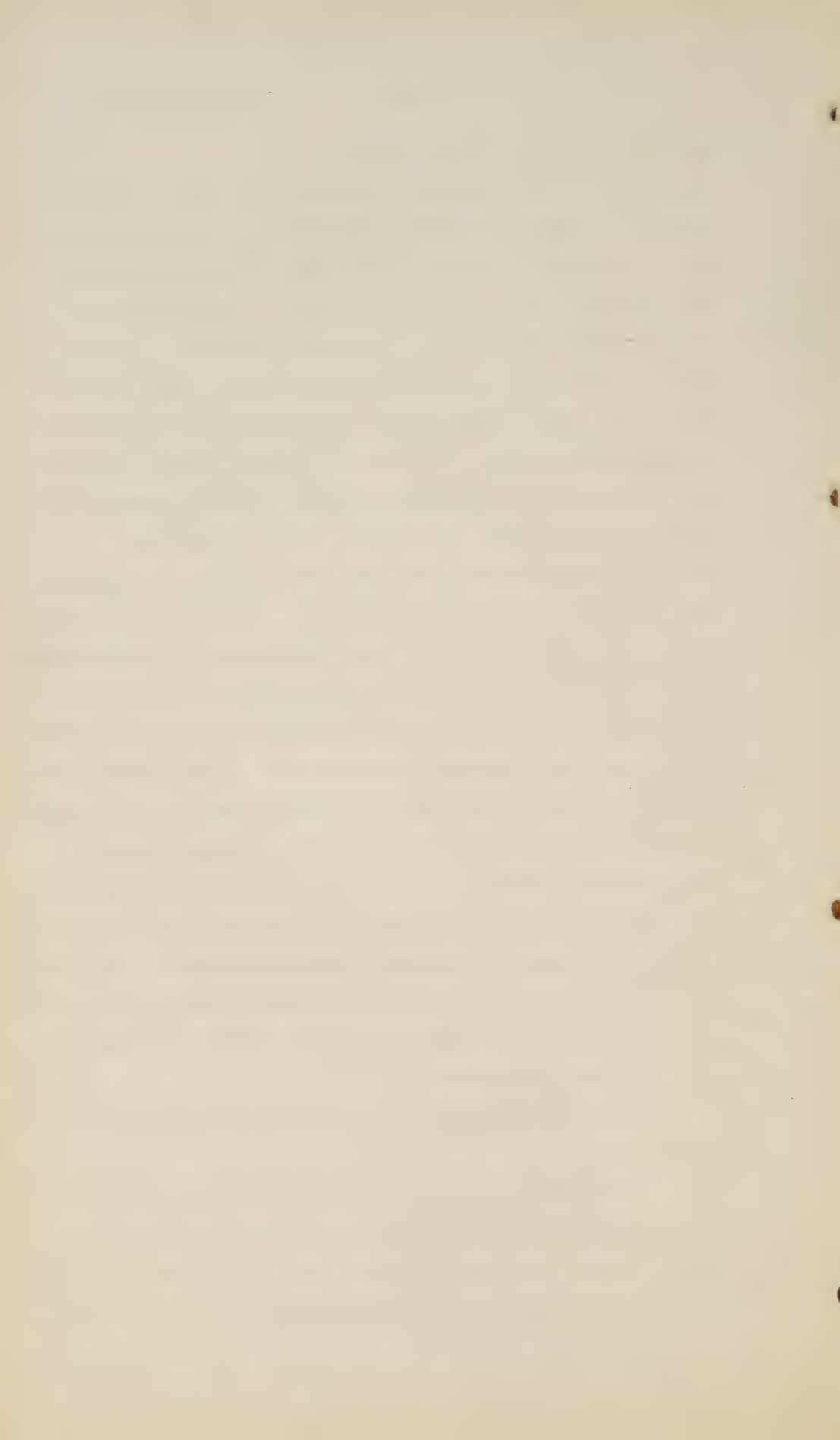
economies that can be secured at all can be secured under separate operation; and the comparatively slight difference between the degree of economy that can be secured from separate operation as compared with that under amalgamation would be more than offset by the obvious disadvantages of amalgamation which I have referred to. Frankly, I see no further answer to this railway question at all than to do just what we have suggested -- economize in every possible way, and simply hope for a return to normal times. Because the situation on the Canadian National from a financial point of view is much more healthy than it has been.

SIR JOSEPH FLAVELLE: More healthy than it has been, did you say?

MR. HUNGERFORD: To a very large extent. A great deal of this extraordinary work and expenditure has been disposed of, is behind us, we are getting much more nearly on a normal basis, and from now on our expenditures will be substantially less, both on operating unit basis and in general on capital account. Further, with the increase in business we will earn a larger proportion of net than we have ever done before by a long way. If we were today on a normal trend of gross earnings, we would be earning an amount sufficient to pay interest on all the securities in the hands of the public. We are distinctly below a normal trend at the present time; in 1927 and 1928 we were above it.

COMMISSIONER LOREE: That includes the charges on \$20,000,000?

MR. HUNGERFORD: Yes, allowing for an increase of a million dollars a year on interest charges on account of expenditure of additional capital, and as time goes on, just as a reasonable and sane policy is pursued -- I guess I had



better not put this in the record.....

SIR JOSEPH FLAVELLE: Mr. Hungerford, take your steamers on the Pacific Coast that you have spoken of, and the two incomplete hotels that we saw on our trip, one in Saskatoon and the other in Vancouver. Purely as a matter of personal opinion that nobody is responsible for but myself, if I had those hotel properties I would not finish them, and I would not operate them, for I know I would go into red ink to an appalling extent. I am taking into account the difficult situation that had to be worked out, but the tendency of this kind of expenditure dismays a man like me. I am dismayed that \$6,000,000 odd should have been spent on steamers that were abandoned before the service was reasonably started; I am dismayed by these hotel expenditures that are staggering in the capital sum. If we had normal trading again I fear we would have a repetition of the same thing in some other field.

MR. HUNGERFORD: Well, Sir Joseph, I have never said or claimed that the administration as a whole has not made mistakes during the period; quite frankly, some serious mistakes were made with respect to matters of that kind. But after all by far the greater proportion of the money so spent was spent usefully and profitably on the property. When you come to the question of hotels, Pacific steamships, and things like that, you are dealing more or less with excrescences that are apart from railroading as a whole, for which I am particularly concerned and for which I am particularly speaking.

COMMISSIONER LOREE: Mr. Hungerford, your situation differs only in amount from what is a general situation all over the North American continent.

MR. HUNGERFORD: That is so, sir.



COMMISSIONER LOREE: 54 per cent of the railways in the United States will not have earned their fixed charges in 1931. You are not going to earn yours.

MR. HUNGERFORD: No.

COMMISSIONER LOREE: It is no reflection on you personally, it is part of the condition of affairs. What this Commission has got to face is some solution for that condition. Now, industry is composed of three elements -- management, capital, labour. If the discount rate of the Bank of England was 4 per cent a hundred years ago, and it is less than 2 per cent for the Federal Reserve Bank of America today, capital certainly is not taking out any inordinate share. Further than that, income taxes, death duties, and other assaults made on it, must raise the question in any thinking man, whether the people are going to find it worth while trying to accumulate capital in the future. I think one of the greatest dangers to our civilization will be the bringing about of such a condition of affairs that capital will cease to be accumulated.

When we come to labour, I find that labour is getting thirteen times more than the wages paid a hundred years ago -- I am referring to locomotive engineers. You and I can blame Mr. McAdoo, we can blame various things, but if we are going to preserve industry that is one of the questions we have got to honestly face and to put right.

Sir Joseph and I differ perhaps on the question of management. He thinks management is over paid; I think management is very much under paid, and that is one of the main troubles in the situation. Napoleon had a mareschal named Masséna, whom Wellington thought was the best of the lot. Napoleon said that on the field of battle Masséna





was worth ten thousand men. Grant had a cavalry commander named Wilson. He sent him to General Thomas and wrote a letter of introduction in this fashion: "In sending you General Wilson I figure I am adding ten thousand men to the strength of your army." I was reading the other night Guedalla's Life of Wellington. He quotes Wellington as saying that in combat Napoleon added forty thousand men to the strength of his army. If that is the capacity of men in military life, what is the capacity of men in industrial life?

SIR JOSEPH FLAVELLE: I accept that.

COMMISSIONER LOREE: I think management is terribly under paid, and I believe that one of the weaknesses of the industrial structure today grows out of the underpayment of management. It is under paid to a much greater extent even than capital.

Now, these things have got to be faced if we are going on, and they have got to be readjusted. In my opinion we are out of all adjustment, partly due to the inventive genius that has brought into industry new tools of every kind, and partly due to the stimulation of artificial wants and various other things.

But when we face the railroad question it seems to me it is simple. We have got in the United States 73,000 miles of railroad which if I were a Mussolini in charge of the country I would start to take up tomorrow. I have seen figures showing that you could take up 2,000 miles in Canada. I do not know, but I should think perhaps you could take up 10,000 miles.

We have got to go at the thing resolutely and intelligently and with an object in mind that has to be attained, that is, to put these properties on a sound, self-sustaining



basis. We have got to examine one by one the things that stand in the way. I agree with Sir Joseph that these thirty-two subsidiary companies -- perhaps twenty-five of them ought to be abandoned and just let out of the picture. As to what could be done with each of these items I would consider the reasoned opinion of the two railroad companies.

MR. HUNGERFORD: Are you referring to those subsidiary companies in particular?

COMMISSIONER LOREE: No, only as one of the items. Take this line to Prince Rupert: Is there any economic justification for its maintenance?

MR. HUNGERFORD: Offhand, I would say there is probably no economic justification.

COMMISSIONER LOREE: Then who has to foot the bill?

MR. HUNGERFORD: But I cannot visualize the conditions under which authority would be granted to take it up.

COMMISSIONER LOREE: Then turn it back to the government and let them put on a staff to operate it by itself, so the whole community would see the picture every year of what has happened.

MR. HUNGERFORD: On the other hand, Mr. Loree, if the line were picked up there would be a saving on operation, but the fixed charges would remain. That is true of all these lines.

COMMISSIONER LOREE: The fixed charges would remain somewhere, but not necessarily in the railroad. The United States lost \$1,900,000,000 in operating the railroads that it took over during the war, but it did not charge that loss to the railroads, it added the loss to the public debt. Now the government is likely to take over the \$9,000,000,000,000 loaned to the European governments, but that will not be



charged to the individuals, it will be assumed as part of the public debt.

MR. HUNGERFORD: There was something more than the subsidiary companies that you were discussing before, Mr. Loree. Did you want any additional information in regard to that? I am not quite sure what the point was.

COMMISSIONER LORREE: I was just drawing attention to the fact that I saw a statement of thirty-two companies, and the net result was that the investment in those thirty-two companies had been \$55,000,000, that they had not earned their interest, and that they had sustained an operating deficit of \$1,400,000.

MR. HUNGERFORD: I think we can furnish an analysis of that.

COMMISSIONER LEMAN: Mr. Hungerford, I understand your considered opinion as a public spirited citizen is that the situation we would have to deal with would boil down to this: the Canadian National Railways would be careful, prudent and cautious in their management and effect economies which are summed up to \$23,000,000 a year; but simultaneously the Canadian National Railways will call upon the government to advance them a sum of \$20,000,000 per year for additional capital requirements. So that the whole thing would summarize itself practically thus: stand pat and do nothing. Do I understand that correctly?

MR. HUNGERFORD: The amount given there in regard to reductions does not apply at any particular time. The effect of reductions is a progressive thing all the time, and it changes from time to time, it depends on the basis you start from.

LORDASHFIELD: I think Mr. Hungerford did say that one thing he would advocate would be that there should be





no capital expenditure unless it could be justified by the result on that capital expenditure, which he puts at 5 per cent, and therefore that would be \$1,000,000 a year. But I rather gathered from what he said that he expected the net earnings would justify that capital expenditure year by year, that it would not be money thrown away.

MR. HUNGERFORD: Yes.

THE CHAIRMAN: But in the immediate ensuing years there are capital expenditures to which you are already committed..

COMMISSIONER LEMAN: There will be \$20,000,000 a year of capital expenditure.

SIR JOSEPH FLAVELLE: With 32,000 miles of railway you will have capital expenditures which are properly chargeable to capital, but so far as the cash account is concerned the government will have to supply the money. The claim is that this expenditure would earn its carrying charges and its depreciation, so that it would not be \$23,000,000 as against \$20,000,000, it would be \$1,000,000 of interest on the capital invested, which would be taken care of year after year by its earnings.

COMMISSIONER LEMAN: That would depend upon conditions Sir Joseph. They might or might not earn interest on that \$20,000,000 which the government would be putting into the undertaking every year.

LORD ASHFIELD: In any event it would only be a million dollars a year chargeable on the government.

COMMISSIONER LEMAN: But if the deficit is reduced by \$23,000,000, and the government is putting up \$20,000,000 of additional money every year for five years, there would be no change to the government so far as financing is concerned.





SIR JOSEPH FLAVELLE: You are quite right.

MR. HUNGERFORD: That is true in a way, but it does not take into account earnings that would result from any increased business. You can hardly take a picture at any given time and say that it is representative at all. If the business goes up the proportion of net earnings will increase of course, and if the business comes back to anything like normal we could take care of fixed charges; that is all that could be reasonably asked.

THE CHAIRMAN: What was the total capital expenditure in 1931?

MR. HUNGERFORD: That is not fully determined.

THE CHAIRMAN: But you have an estimate of it.

MR. FAIRWEATHER: That latest revised estimate -- Mr. Mallory has just submitted a slight revision -- shows the following: General additions, betterments, net \$8,835,186; equipment trust, the 25 per cent payment plus the 75 -- the two combined -- \$15,039,200; statutory authorizations, including branch line construction, Toronto terminals, Montreal terminals, St. John and Quebec terminals and the Northern Alberta railways \$12,219,609: Total \$36,093,995.

THE CHAIRMAN: When you speak of your \$20,000,000 beginning with 1932 and going on, you put \$20,000,000 as the maximum covering everything?

MR. HUNGERFORD: On the average.

THE CHAIRMAN: I am not speaking of it in that way, I suppose there might be some slight change. Now, with regard to the \$23,000,000 suggested by Sir Henry Thornton on the first day we heard him, that was not something you suggested should go into effect at once, next year for



example, but it would be attained after the expiration of a certain period. What is that period?

MR. FAIRWEATHER: That was an estimate of the effect of various economies which were instituted during the progress of 1931, and which if they had been in operation for a full year would have amounted to the figures indicated. There is no reason why they would not be fully operative in 1932.

THE CHAIRMAN: To what extent would that over-lap your \$20,000,000?

MR. HUNGERFORD: The \$20,000,000 is a matter of capital expenditure.

THE CHAIRMAN: Quite so. But to what extent does it over-lap?

MR. FAIRWEATHER: It is really a different category. The \$23,000,000 Sir Henry was speaking about was operating economy.

THE CHAIRMAN: That is the impression I had, but a moment ago you spoke of these things canceling one another out. As I understand you now, there should be a probable reduction from \$36,000,000 to \$20,000,000 in capital expenditure, and in addition to that a \$23,000,000 reduction in operating expense.

MR. FAIRWEATHER: Yes, sir.

THE CHAIRMAN: Very well, that is all I want to know. Half past two, Mr. Hungerford.

At 12.50 p. m. the Commission adjourned.



Parliament Buildings, Ottawa,  
Tuesday, December 5, 1932.

AFTERNOON SESSION

The Commission resumed at 2.30 p.m.

THE CHAIRMAN: Mr. Hungerford, were there not some more or less miscellaneous matters that you had not yet touched upon?

MR. HUNGERFORD: I think I have disposed of everything I had in mind.

THE CHAIRMAN: Is there anything you would like to add now with regard to what was discussed this morning?

MR. HUNGERFORD: Not unless there are some questions.

THE CHAIRMAN: Was there not some part of your memorandum that you had not read?

MR. HUNGERFORD: I might just read this list of possible opportunities for cooperative effort, if you wish to have them on the record.

These are subjects for investigation with a view to developing the possibility of further advantageous co-operation:

1. The pooling of passenger train services between competitive points. I have discussed that.
2. Some form of amalgamation or cooperation with respect to the Pacific coast steamship services.
3. The same thing with respect to hotel services.
4. The same thing with respect to telegraph services.

SIR JOSEPH FLAVELLE: Express as well, or just





telegraphs?

MR. HUNGERFORD: Just telegraphs. The express situation is rather complicated by possible developments in connection with meeting highway competition; there seems to be a tendency there perhaps to grow away from express and really make it an agency for handling package freight, or something of that kind. The picture is really not sufficiently developed to permit any clear indication of what would be the best thing to do under the circumstances, and for that reason I have left the express companies out.

5. With respect to parallel lines, a continuance of the study of the possibility of the joint use of one or two of the lines and abandonment of the other,

6. Continuing a study of the possibility of further joint use of terminal facilities of various kinds.

7. Looking into the question further of the handling of freight, with respect to certain more or less specific developments in that connection. An illustration of that would be what was mentioned yesterday as to the possibility of saving money by the Canadian National handling Canadian Pacific traffic from Edmonton to Kamloops and the Canadian Pacific, in return, handling a corresponding volume of traffic over their line to Kamloops. The consideration of this phase of the matter is, in my opinion, limited to peculiar conditions of that kind rather than being a point of general cooperation.

8. Joint efforts to meet bus and truck competition.

SIR JOSEPH FLAVELLE: Have you any amplification of that subject of bus and truck traffic, other than what is set forth in the lengthy statement already furnished?



THE CHAIRMAN: That was the report brought in by officials of the two companies.

SIR JOSEPH FLAVELLE: Yes.

MR. HUNGERFORD: There was a report prepared by a joint committee of the two companies, after prolonged study, and I think it has been filed with this Commission.

THE CHAIRMAN: Oh yes, we have that.

SIR JOSEPH FLAVELLE: I simply wanted to know whether you had anything further than the general suggestion with respect to joint efforts to meet that competition.

MR. HUNGERFORD: I have some personal thoughts on the subject, but the picture is not yet very thoroughly developed, notwithstanding the great deal of study that has been devoted to it. We are acting jointly with the Canadian Pacific and other interests in an attempt to develop ways and means of meeting this new situation which has been created.

9. Use of each other's equipment in preference to hiring from other companies. That, I may say, is an arrangement that has been in effect for some time, and it works quite satisfactorily.

10. The possibility of some further cooperative development in connection with lake and rail business. We do not know yet what might be accomplished in that line.

SIR JOSEPH FLAVELLE: You mean from Winnipeg to Fort William, do you?

MR. HUNGERFORD: Well, between Georgian Bay ports and Fort William, yes. The Canadian Pacific have their own boats there, and we work more or less in alliance with



the Canada Steamship Lines. Nothing has been developed, but that is an avenue that should be explored, we think.

SIR JOSEPH FLAVELLE: Are you now speaking of steamship services or transportation by rail from Ontario points to Fort William and Georgian Bay points?

MR. HUNGERFORD: I am speaking of the lake movements, sir -- the use of boats in connection with the lake movements.

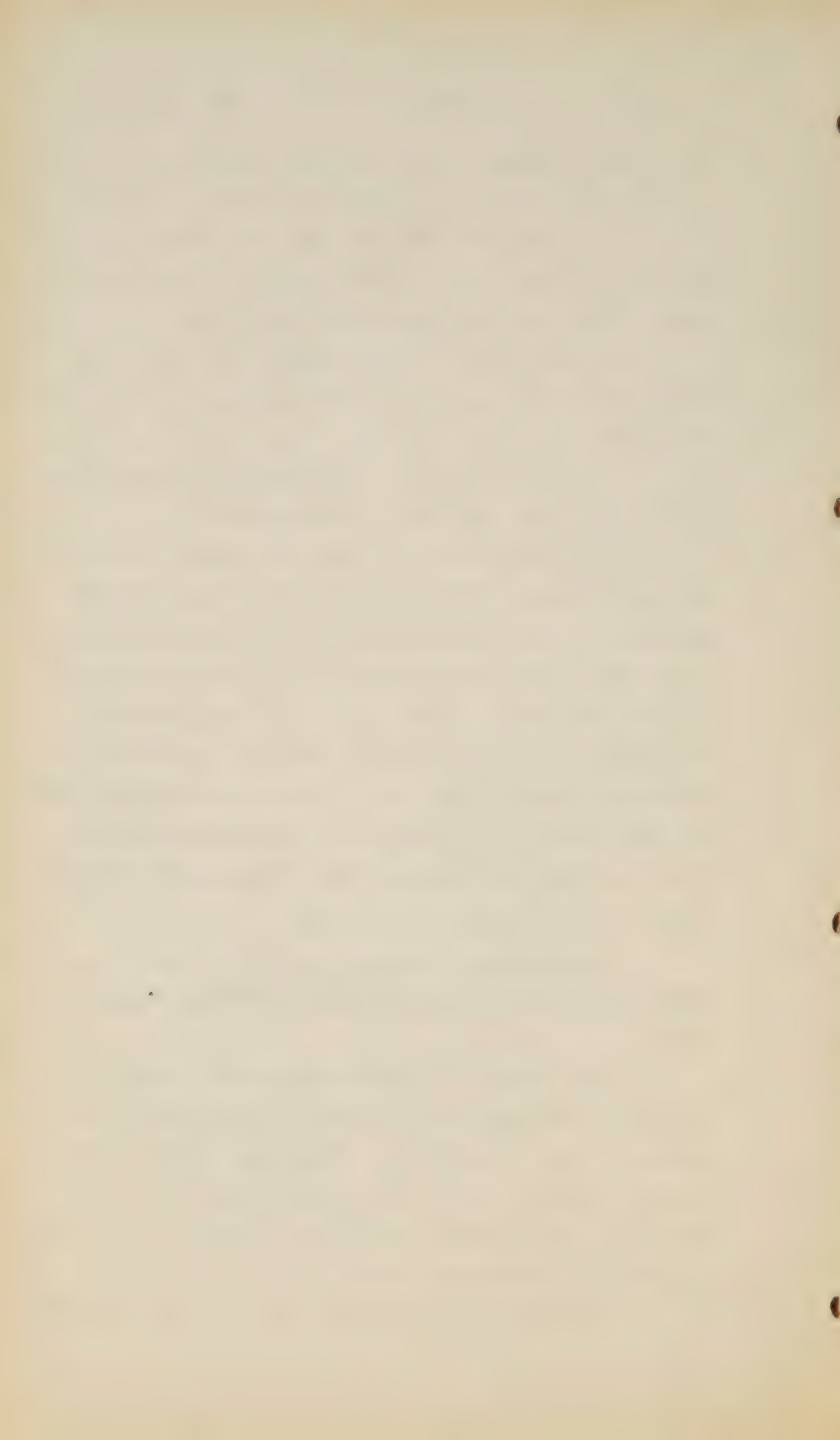
11. The possibility of abolishing or consolidating off-line or uptown agencies of various kinds.

12. Interchange of traffic: an endeavour to influence passenger and freight shippers to use connecting lines of the Canadian Pacific or Canadian National or their subsidiaries, in preference to the connecting lines of other companies. That is, in so far as it lies in our power, to direct the traffic when it necessarily leaves our lines, to the lines of the other company. There are many limitations in respect to the possibilities in that direction, but something could be done and I think it might be worth while.

Broadly, these are the suggestions I have in respect to developing the possibility of further cooperation.

THE CHAIRMAN: I think at an earlier stage you referred to freight rates in relation to two aspects, one from the point of view of their magnitude and the other from the point of view of their adaptability of the rate structure, with special reference, as I understood it, to competition with highway traffic.

MR. HUNGERFORD: Of course I am not a rate expert--





THE CHAIRMAN: No; I understand.

MR. HUNGERFORD: The rate structure as a whole is too low to maintain the railways under all conditions; I think that has been pretty well established. But it is pretty difficult to adjust it to meet new conditions. What I have in mind is this: that the ton mile rate, the unit rate for short hauls, is relatively high, and for long hauls it is relatively low. Now we are facing this extreme highway competition within a short haul range; that business is being taken away in large volume, and in order to meet that I think we are going to be compelled, selectively at least, to reduce our short haul rates, say up to one hundred and fifty or two hundred miles. That will represent loss, but it must be incurred if we are going to meet this form of competition and secure that kind of business in the future. Against that, the ton mile long haul rates are very, very low, and in my view that loss might reasonably be recovered by an increase in the long haul rate, that is, a levelling up process -- a lowering of the present high short haul rate and a corresponding increase of the present low long haul rate.

THE CHAIRMAN: I wonder if as a matter of convenience -- perhaps my colleagues will have some questions to put to you with regard to it -- you would re-read that part of your memorandum in which you deal with what you conceive to be the conditions governing the expenditure of capital moneys.

MR. HUNGERFORD: I think you have reference to that part of the memorandum which suggests the restriction of capital expenditures in the first place, to items necessary





for safety of operation.

THE CHAIRMAN: That is what I mean, yes.

MR. HUNGERFORD: That was the first item.

THE CHAIRMAN: Perhaps you might read the earlier paragraph so that we can get the whole picture.

MR. HUNGERFORD: Very well, sir, I will read the whole of the paragraph:

Having regard to all the circumstances I believe the best ultimate results will follow the adoption of the following policies:

- (1) Maintain present status and organization of the two railways.
- (2) Cooperation between the two companies as far as feasible subject to the condition that in any case, neither company shall suffer loss, and that one or the other, or both, shall secure substantial advantage.
- (3) Continue the present policy of effecting every practicable economy in operation.
- (4) Take all reasonable measures to combat highway competition.
- (5) Restrict capital expenditures to:
  - (a) Items necessary for safety of operation.
  - (b) Items ordered by competent authority or obligations assumed by agreement.
  - (c) Items which will undoubtedly earn a full return on investment.

And then I went on, sir -- this is more or less connected with it:

In this connection I desire to endorse in prin-



ciple the suggestion offered by Sir Henry Thornton that some commission be endowed with power to enforce reasonable cooperation.

And so on.

LORD ASHFIELD: There are one or two questions I would like to ask. You have had, I understand, a very long experience in railway operation?

MR. HUNGERFORD: Forty-five years.

LORD ASHFIELD: That has included operation under company management as well as under the present auspices, government control?

MR. HUNGERFORD: Yes -- twenty odd years on the Canadian Pacific.

LORD ASHFIELD: Do you venture to draw any distinction between methods and policy under company operation as distinct from the operation of the Canadian National under government ownership?

MR. HUNGERFORD: No, I cannot see any particular difference.

LORD ASHFIELD: One is as efficient as the other, so far as your experience goes?

MR. HUNGERFORD: I think so, under the same average physical condition and degree of development from an organization point of view -- yes, I think so.

LORD ASHFIELD: Do you think the organization is as free in dealing with all the affairs of a railway enterprise such as the Canadian National as would be the case with the Canadian Pacific?

MR. HUNGERFORD: Well, I shall have to qualify my answer in regard to that. Of course parliament does



exercise a certain measure of control -- parliament and the government -- comparable perhaps with that exercised by the shareholders in the case of a privately owned company, at least to some extent. The chief difference I see between the two is this: that under government ownership the officers at least have a considerably greater amount of work to do in order to accomplish the same results.

LORD ASHFIELD: Statistical work, you mean?

MR. HUNGERFORD: Arising out of the government connection, I suppose -- a great many more reports have to be furnished, information of various sorts, correspondence about this, that, and the other thing. It really does not go beyond that, so far as I can see, except when it comes to the question of ultimate financial control.

LORD ASHFIELD: Has it had a restrictive effect upon the activities of the organization -- all this extra work that is put upon it?

MR. HUNGERFORD: No, I would not think so.

LORD ASHFIELD: It is simply a matter of labour, that is all.

MR. HUNGERFORD: That is all. I think perhaps, my lord, I can answer your question in this way -- and in saying this I do not suggest any criticism at all of another company. But during the period under review --

LORD ASHFIELD: You are talking about when -- what is the period under review?

MR. HUNGERFORD: Say 1920 -- the last ten or eleven years. So far as I can see, and I think I am pretty well informed with respect to the situation, the management of the Canadian Pacific Railway has pursued exactly the





same policy as that of the Canadian National. I see no difference at all.

LORD ASHFIELD: Perhaps that might be admitted, but may there not be an explanation for it? I suggest the explanation might be -- I do not say that it is -- that the policy of the Canadian Pacific has to a certain extent been dictated by the policy of the Canadian National.

MR. HUNGERFORD: I can hardly believe that it was dictated in very large degree, from the fact that the Canadian Pacific took the initiative on many occasions in connection with the development of new enterprises. I say that in no spirit of criticism; it is simply a statement of fact. The influence, if it was materially effective in either case, was mutual, and perhaps of equal effect on each side. Certainly nothing the Canadian National did or proposed to do, that I know of, suggested the building of a hotel in Toronto, by way of example. I do not know of any.

SIR JOSEPH FLAVELLE: I did not catch the last sentence -- suggested what?

MR. HUNGERFORD: I do not know of any action by the Canadian National, or any measure of policy, which suggested the building of a hotel in Toronto like the Royal York, for instance, and I simply cite that as an example. The Canadian National did not propose to build a hotel in Toronto, or do anything about it; the Canadian Pacific elected to do that, for reasons that seemed good to them at that time. I repeat that no criticism is suggested; I quote that as an indication that apparently the Canadian Pacific saw fit to do many things, and in general about the same things that were done by other rail-



Mr. Hungerford

ways and other commercial concerns. It was a period of optimism, and it is common knowledge that during several years most firms developed more rapidly than they now wish that they had. But I do not really think there was any material influence in that.

COMMISSIONER MURRAY: In the competition with regard to passenger service, was there any priority by either company? There must have been by one -- which?

MR. HUNGERFORD: I will cite a case -- and again I wish to say that it is not in any spirit of criticism at all. We decided at one time to put on a connecting train from Montreal to connect with one that had been running for many years from Ottawa to Toronto, in order to establish something like a mid-day service between two major cities. In conformity with an understanding that we had had with the Canadian Pacific for a considerable time, we gave them the customary twenty-one days' notice of our intention to make this change in passenger service. They had a corresponding service from here; and that was a service that was demanded by the public.

THE CHAIRMAN: The mid-day Ottawa-Toronto service?

MR. HUNGERFORD: It was a connection from Montreal, sir, to Napanee, where it was joined up with the mid-day Toronto-Ottawa service. Well, they elected to put on the same service. We did not see the necessity for it; however, that was their business. But there were two trains put on when there was a demand for one. We developed the demand and put the train on. And then at a later stage there came a discussion about a rearrangement of the train schedules between Montreal and Chicago, and in con-



junction with the Michigan Central they notified us of their desire or intention to change certain schedules which would give them an advantage between Toronto and Chicago. We had been urged for several years by many people to put on a fast service in the afternoon between Montreal and Toronto, and in seeking some way to meet this competition of the Canadian Pacific and the Michigan Central we finally evolved the idea of a six hour train, and concurrently we withdrew this other service of which I have just spoken. So that the increase in mileage was very slight, while the improvement in the service between Montreal and Toronto and Chicago was very considerable indeed. Apparently the innovation of the six hour train between Montreal and Toronto met with the approval of the public. We had of course advised the Canadian Pacific of our intention to put on such a schedule, following their advice to us that they intended to disturb the pre-existing arrangement. Then they decided a year later to do about the same thing.

SIR JOSEPH FLAVELLE: The disturbance in the first instance was on the part of the Michigan Central, which decided to give an accelerated service between Chicago and Detroit, and it was necessary of course for the Canadian Pacific to travel over that road because they had not a line of their own.

MR. HUNGERFORD: The point is, Sir Joseph, that the Canadian Pacific has joint line service with the Michigan Central, and they work together in connection with the schedule.

SIR JOSEPH FLAVELLE: In that sense the Michigan Central first set the pace for an accelerated service, at least between Chicago and Detroit.





MR. HUNGERFORD: It was a joint effort of the Canadian Pacific and the Michigan Central, the Canadian Pacific from Toronto to Detroit and the Michigan Central west of Detroit. I simply mention this to show that these developments came about in a more or less natural way, and they do not differ, so far as I can see, from developments that took place in the United States and elsewhere.

LORD ASHFIELD: Behind a particular development there is often a good reason.

MR. HUNGERFORD: An excellent reason, yes. We have been actuated by the same motives, and in general, so far as circumstances would permit, have followed just exactly the same practices and policies as we did long before amalgamation, when we were all under private ownership. I personally can see no change.

LORD ASHFIELD: If you venture to review what has transpired in connection with the various activities of the Canadian National railway during the period under review, say the last ten years, do I correctly interpret your view when I say that whatever did happen would not be very different from what would have happened if instead of being under government ownership and control the undertaking had been carried on under similar auspices to that of the Canadian Pacific railway? Do I go too far, or does that express your view?

MR. HUNGERFORD: I think that is substantially a correct statement.

LORD ASHFIELD: So far as you know it is equally true to say of the Canadian Pacific that during the last ten years they have not been tempted to make expenditures for services beyond what business prudence would demand





on account of any policy of the Canadian National Railway?

MR. HUNGERFORD: I do not think so. I think if there had been another private company competing with the Canadian Pacific, a company that had equal resources and opportunities, the degree of competition would have been about the same.

LORD ASHFIELD: You make a very important qualification there.

MR. HUNGERFORD: Perhaps I did not express myself clearly.

LORD ASHFIELD: You said, a company with equal resources. I take it you mean financial resources?

MR. HUNGERFORD: Yes.

LORD ASHFIELD: Equal to those of the Canadian National?

MR. HUNGERFORD: Equal to those of the Canadian Pacific.

LORD ASHFIELD: I am sorry -- I misunderstood you.

MR. HUNGERFORD: Obviously there was competition of a sort in earlier years between the Canadian Pacific on the one hand and the Grand Trunk on the other. The Canadian Pacific was a wealthy corporation, capable of doing almost anything it desired to do at that particular time, and the Grand Trunk for a number of years was living from hand to mouth, as it were, and naturally could not do many things. I am not referring to that kind of competition; but if the conditions with respect to financial resources had been substantially the same, then I think about the same degree of competition would have developed, that is, under the same circumstances with respect to optimism and general development in the country.



LORD ASHFIELD: In those circumstances there would not appear to be much room for economy, would there, if the two systems were fused or brought together in some way?

MR. HUNGERFORD: No, I cannot see that any great saving would result.

LORD ASHFIELD: Then what prospect is held out for the future? Must we rely almost entirely on a return of what we call a normal situation, a larger volume of traffic coming to the railways, for anything approaching financial stability?

MR. HUNGERFORD: Yes.

LORD ASHFIELD: In your opinion there is not much to be gained through economies?

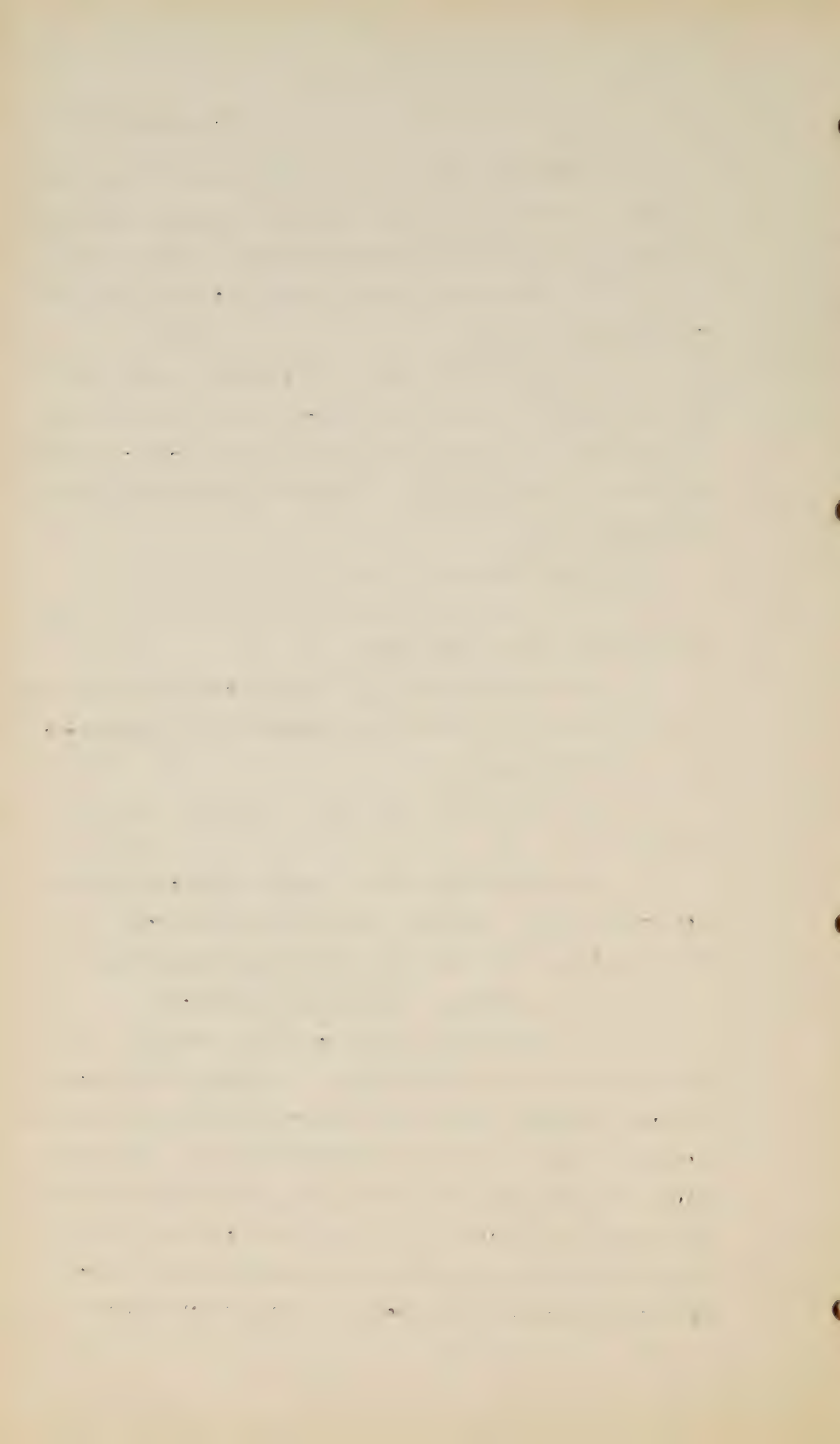
MR. HUNGERFORD: Oh, I think substantial advantage is to be gained from practising economies, if I understood the question aright.

LORD ASHFIELD: What would that be? Have you estimated it?

MR. HUNGERFORD: No. I do not know exactly how to express that. You have been given a figure of \$60,000,000 as a possible saving under amalgamation.

LORD ASHFIELD: It has been mentioned.

MR. HUNGERFORD: And a possible saving of \$30,000,000 without amalgamation. I suggested this morning and I suggest again, that probably many of the items involved are not possible of attainment under all the conditions that exist in this country, and therefore they would not be realized under one condition or the other. But in a general way it is my belief that nearly as much economy can be effected, with the proper methods, under separate



operation as can be effected under amalgamation. I do not think the difference between the two would be very great, and in my view at least, there are very serious objections to monopoly under those conditions at all.

COMMISSIONER WEBSTER: Do you mean separate management as it exists now, or under the scheme proposed by Sir Henry?

MR. HUNGERFORD: Sir Henry's scheme contemplated separate management, with a certain measure of supervision by a board or commission, or something of that sort.

COMMISSIONER WEBSTER: Which can order certain changes?

MR. HUNGERFORD: Yes.

COMMISSIONER WEBSTER: That is not possible now?

MR. HUNGERFORD: Well, I don't know.

SIR JOSEPH FLAVELLE: Is it supervision, or control -- which is the word?

MR. HUNGERFORD: Perhaps control is a better word.

SIR JOSEPH FLAVELLE: I had not the advantage of being here yesterday, but this question occurs to me: under the control suggested would the private corporation surrender to a certain extent its right of individual judgment, as it now does under the Railway Board, whose rulings it has to accept, or does the suggestion go further than a determination of matters of dispute, in which case the board or commission would make a direction?

MR. HUNGERFORD: What do you say about that, Mr. Fairweather?

THE CHAIRMAN: Perhaps I might answer that, Sir Joseph; there was considerable discussion between myself and Sir Henry with regard to it. He contemplated a board





having two separate kinds of function: one a function of supervision of the Canadian National, acting as the agent of the Canadian people; so to speak, looking after their own property; the other a regulative authority, which he really was not prepared to define very closely, but which in proper circumstances would require cooperation with regard to the abandonment of services, the undertaking of new developments, and so on. He rather indicated as a sort of archetype the powers of the Interstate Commerce Commission, which are considerably more extensive in many respects than those of our own Board of Railway Commissioners. That is the sort of suggestion Sir Henry advanced yesterday, although of course it was put in very general terms, and in order to work it out it would be necessary to define very carefully the fields of activity. What Mr. Hungerford's view are, is of course another matter,

MR. HUNGERFORD: Mr. Chairman, I have said that I endorse the idea in principle, I am not prepared to make a specific recommendation as to the form it should take or the exact extent to which the power should be given such a body, but I think under the present conditions at least there is a need for some form of regulation or control of that kind, in the national interest.

THE CHAIRMAN: One thing in particular, Sir Joseph, should be mentioned; he suggested that the consent of this board should be necessary in the flotation of securities -- I think that was the particular item that was most important.

SIR JOSEPH FLAVELLE: That power is already exercised in some of the provinces. In Ontario, for instance, the municipalities cannot issue securities with-



out the concurrence of the board empowered to exercise control in such matters.

THE CHAIRMAN: Has the Interstate Commerce Commission that power as at present constituted, Mr. Loree?

COMMISSIONER LOREE: Absolutely. Coming back for a moment, Mr. Hungerford, to the operating commission, you have two lines between Winnipeg and Fort William. Would you move grain over both of them, or would you concentrate it on one?

MR. HUNGERFORD: We have studied that question a great deal, Mr. Loree. This north line which you see on the map as a red line, constituting one outlet to the head of the lakes, and the old Canadian Northern route, constituting another, are both required, as single track lines, during the period of heavy grain movement. The Canadian Northern route constitutes the only available route to Duluth, which is a fairly important connection and therefore could not be abandoned. The line which is part of the National Transcontinental constitutes the shortest route to the east and therefore could not be abandoned without breaking the connection to the east. The route that we use to the east is on the National Transcontinental to a place called Nakina, then via a connecting link built a few years ago on to the Canadian Northern and down in a southeasterly direction -- a short, low grade route. So that there is great difficulty about that, Mr. Loree. If you abandon the Duluth line you break the connection to Duluth.

COMMISSIONER LOREE: Suppose you abandon the line only from the point where it re-enters Canada over



to Fort William.

MR. HUNGERFORD: It is a possibility, but under the usual traffic conditions that obtain during the heavy grain movement it would be disadvantageous.

SIR JOSEPH FLAVELLE: Is the Canadian Pacific a double track line?

MR. HUNGERFORD: Yes, they have one line, double track.

LORD ASHFIELD: If you had free use of the Canadian Pacific, how would that effect the situation?

MR. HUNGERFORD: Well, it depends, my lord. If the grain movement developed in the same volume that it was a short time ago, it would be of no use because they would be using their facility to capacity too.

LORD ASHFIELD: They are using their double track line to full capacity?

MR. HUNGERFORD: At times -- at the times of heavy grain movement. I do not know that you can say it was used one hundred per cent capacity all the time, but certainly it was generally used to capacity.

THE CHAIRMAN: They constitute a spout there.

MR. HUNGERFORD: They do; all the other lines west of Winnipeg converge at that point.

COMMISSIONER LEMAN: When did they double track the Canadian Pacific from Winnipeg to Fort William?

MR. HUNGERFORD: About 1907 or 1908.

COMMISSIONER LEMAN: Was that before the opening of the Panama Canal?

MR. HUNGERFORD: Yes, I imagine it was. I do not recall exactly the date of the opening of the Panama Canal.



COMMISSIONER LONEE: It must have been about 1912 or 1913.

MR. HUNGERFORD: They not only double tracked there but also a long way west of Winnipeg, in broken sections.

SIR JOSEPH FLAVELLE: There is a heavy concentration of grain during the fall months moving down to the lake terminals?

MR. HUNGERFORD: Yes. That is one of the uneconomic features of the western movement. From about the centre of Saskatchewan or the western part of that province the whole movement is practically eastward -- grain, lumber, coal, live stock, and so on, all moving in one direction, usually at the same season, while nothing but merchandise is moving west. There is a great concentration of traffic in a period of two or three months and relatively lean traffic during the remainder of the year. This involves the maintenance of rather extensive facilities and the assembling of a great amount of equipment for that movement and then it is distributed subsequently.

COMMISSIONER LEMAN: Will the Hudson Bay railway make any difference?

MR. HUNGERFORD: It has been said that about twenty million bushels represent the maximum capacity of the Hudson Bay railway in terms of Canadian grain -- that is, the current year's Canadian grain. In view of the fact that the western wheat crop alone has exceeded 540,000,000 bushels, it is perhaps not a dominating factor.

COMMISSIONER LEMAN: You do not expect it to be a dominating factor?

MR. HUNGERFORD: Only to that extent. I think it





is a feasible route, but its capacity will be very limited, from the fact that the grain that is naturally tributary to that port is only available for movement usually about the last week in September or the first week in October.

LORD ASHFIELD: Why is that?

MR. HUNGERFORD: It is relatively far north, and the accepted date for the close of navigation through the straits is the 15th or 20th of October, so you have only two or three weeks any how for current movement. Of course grain might be moved which had been stored from the previous year. It has been thought that sometime or other we might get certain grain from the Dakotas, but that has not developed and probably won't for a while.

SIR JOSEPH FLAVELLE: Of course you would not have any liners operating from there -- only tramp steamers.

MR. HUNGERFORD: Tramp services exclusively.

COMMISSIONER LEMAN: Do you expect any change in the movement of grain to the port of Vancouver? Have you found a tendency towards more grain moving west than east?

MR. HUNGERFORD: I think practically all the grain from Alberta will go out through the Pacific coast; in fact it is doing that pretty well to-day. Of course the variation in the volume will depend on the extent to which grain production in the west increases.

COMMISSIONER LEMAN: Do you believe that the deepening of the St. Lawrence waterways would have an effect as to the amount of grain moving east versus west?

MR. HUNGERFORD: No, I do not think it would.

COMMISSIONER MURRAY: Does the close of navigation send more grain from western Saskatchewan to Vancouver?



MR. HUNGERFORD: Yes, there is a tendency. The splitting point after the close of navigation on the lakes seems to shift easterly.

COMMISSIONER MURRAY: It comes pretty nearly as far as Saskatoon, doesn't it?

MR. HUNGERFORD: Pretty nearly in some instances. It seems to fluctuate all the time. There is an area in there that is relatively no man's land, and it is shifting back and forth.

SIR JOSEPH FLAVELLE: If China, for instance, became ultimately a consumer of a large quantity of wheat, it would move that much more tonnage, wouldn't it?

MR. HUNGERFORD: I would assume so, yes. Grain will naturally go by the most convenient route to the available market.

SIR JOSEPH FLAVELLE: Have they a liner service all the year round? We were advised when we were in Victoria and Vancouver that the liners came up to Vancouver and Victoria and then went south, taking in the ports on the way down to San Diego until they completed their cargo, if they were going through the canal, or, if they were going west to Asia, completing their cargo at whatever points they touched. Is that an all year round service, do you know?

MR. HUNGERFORD: I cannot speak of that with certainty, but my impression is that it is. I am almost certain it is.

SIR JOSEPH FLAVELLE: They have in that case an advantage which we have not, for instance, at Halifax, where calls are made at practically no other ports. Here they



start up the coast and then work south until they complete their cargo.

MR. HUNGERFORD: I do not know to what extent that coastal feature is of importance.

THE CHAIRMAN: Are the ships carrying that grain mostly British or largely American?

MR. HUNGERFORD: No, ships of all nations.

COMMISSIONER MURRAY: It is really a tramp service, not a passenger service.

MR. HUNGERFORD: So called freight liners. They call them liners, but they are in freight service; they do not carry passengers.

THE CHAIRMAN: Are there any further comments that occur to you now, Mr. Hungerford?

MR. HUNGERFORD: I have nothing more, Mr. Chairman, unless the members of the Commission desire anything.

THE CHAIRMAN: After we have had an opportunity of examining your memorandum with a little more care I have no doubt that we shall have to ask you to have a further discussion with us.

MR. HUNGERFORD: I shall be very glad, Mr. Chairman, to meet your convenience in that respect.

THE CHAIRMAN: We are very much obliged to you. We will hear from Mr. Beatty now.





Parliament Buildings, Ottawa,  
Tuesday, January 5, 1932.

(Continuation of Sitting)

Officials of the Canadian Pacific Railway Company present:

E. W. Beatty, K.C., President

Grant Hall, Vice President

D. C. Coleman, Vice President, Western Lines

J. M. R. Fairbairn, Chief Engineer

E. E. Lloyd, Comptroller

E. A. Leslie, Assistant Comptroller

S. J. W. Liddy, Statistician

T. E. McDonnell, President and General Manager,  
Canadian Pacific Express

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THE CHAIRMAN: Mr. Beatty, what would you prefer to go on with first?

MR. BEATTY: I presume, sir, I should first answer Sir Joseph Flavelle's question about possible economies through cooperation, if that is agreeable to the Commission.

The Commission will remember that at the conclusion of the last sittings, at which I was present, Sir Joseph asked me if I could give him an idea of the economies which could be effected by greater cooperation between the companies, and through the joint use of facilities. At that time I stated that agreements tending in that direction had been reached in a number of cases, and perhaps it would be of interest if some particulars of these were submitted.

In order to avoid duplication of existing track-



age, agreements for running rights have been entered into between the following points:

	<u>Miles</u>
At Melfort	1.1
Kneehill-Rosedale	6.6
At Midland	5.1
At Humboldt	1.3
Henribourg-Prince Albert	18.2
Prince Albert-Debden	60.0
Prince Albert-Fenton	19.0
Cutknife-North Battleford	43.0
Kamloops-Campbell Creek	11.6
Fredericton-Vanceboro	68.1
Sudbury-Clara Bell	<u>1.9</u>

The total mileage involved is 235.3

With the same object in view railway lines to be owned and operated jointly have been constructed, or by agreement are to be built between the following points:

JOINT RIGHTS

Vernon to Kelowna)	
Vernon to Lumby )	48.7
Armstrong-Vernon	16.3
Rosedale-Bullpound	26.0
Hamlin-Glenbush	42.0
Glenbush-Medstead	4.0
Alliance-Coronation	28.0
Coronation-Youngstown	40.0
Beaver Crossing easterly	<u>45.0</u>

The total mileage involved is 250.6

During the past ten years, arrangements have been made for joint operation of terminals at Prince Albert, North Battleford, Kelowna, Midland and Swift Current, and for the extension of joint switching arrangements at Fort William, Port Arthur and the south bank of the Lachine Canal. Arrangements have also been effected for the joint use of stations at Melfort, Humboldt, Battleford, Coronation and Youngstown.

Within recent months an agreement has been reached whereby Canadian National agents solicit traffic for the Canadian Pacific steamships on the Atlantic, in return for reciprocal advantages in the routing of rail



traffic to and from the steamships.

At Halifax where there have been two superior hotels; the "Nova Scotian", owned and operated by the Canadian National, and the "Lord Nelson", in which the Canadian Pacific had a substantial interest -- an agreement for the joint operation of both by an independent company is in the process of negotiation.

During 1930 and 1931 the two railways have, in cooperation, substantially reduced many services; for example between Montreal and Quebec, one day train each way on both lines; between Montreal and Ottawa, one day train each way on both lines; between Montreal and Toronto, one night train each way on both lines, and between Toronto and Hamilton two trains each way for each service.

As I suggested to the Commission previously, the field for such endeavours is restricted by the competitive system. In deference to the request made, however, committees of officers of the company have been set up to explore such further measures of cooperation as would be possible and not detrimental to the operation of the companies as competing transportation units. This work is still in progress, but it might be of value if I were to indicate the way in which we are approaching it and some tentative estimate of the results which might be expected.

The principal fields to be examined and the only ones which present the possibility of major or even moderate savings, are to be found under the following captions:

1. Consolidation of express services.
2. Consolidation of telegraph services.
3. Use of joint trackage and stations where parallel lines exist, with the abandonment of the duplicate trackage.



4. Joint switching services.
5. Joint stations (not included in No. 3).
6. Reduction of train mileage and curtailment of traffic expenses.

The consolidation of express and telegraph services is definitely possible. The former has been successfully accomplished in the United States, and the latter offers no obstacle. We have made an estimate of the possible savings, or rather what at this stage must be termed an intelligent guess of them, and in the case of express they amount to approximately nine hundred thousand dollars per year, and in the case of telegraph services to approximately three quarters of a million dollars per year.

A study has been made of the sections of railway where joint trackage might be found possible. These appear to be limited, under present conditions, to some twenty-six sections of line, fourteen of which are on western lines and twelve on eastern lines.

THE CHAIRMAN: When you refer to the eastern lines, what area does that include?

MR. BEATTY: East of Port Arthur, on our lines. Consolidation of this character involves many elements. Consideration must be given to the interests of local territory served and to gradients, standards of maintenance and in some cases to the existence of double track. A detailed study to determine the limits of the joint trackage is necessary in each particular case, but I am satisfied that the maximum would not exceed eighteen hundred miles. We have selected thirty-nine points where joint switching and joint use of yard facilities might be considered. Many of them will require more or less detailed examination before their feasibility is deter-





mined. We have also selected a number of points -- forty-six in all, for the consideration of the possibility of joint stations, and here again an individual examination will be required before their practical feasibility can be established.

It will be appreciated that joint use of facilities involves agreement between the companies concerned and the reconciliation of conflicting interests. It involves also the question of public service and of vested and private interest wherever established facilities are affected, and the approval of the Board of Railway Commissioners and of the Government is a necessary condition of such action.

In considering economies to be effected by joint use of such facilities, the following elements are to be taken into account: Fixed charges will be unaffected. What will be affected is the cost of maintenance and, to a limited extent, the cost of operation and train mileage. Assuming that satisfactory arrangements could be made covering the trackage, stations and terminals which we have in mind, we estimate that the annual savings in maintenance and operation will be approximately six million dollars.

THE CHAIRMAN: You mean Canadian Pacific?

MR. BEATTY: Yes.

SIR JOSEPH FLAVELLE: That is the western section?

MR. BEATTY: No, that is both, sir, so far as trackage and joint facilities are concerned, but excluding telegraphs and express.

Much thought has been given during the past few years to the question of pooling of passenger service and earnings in Canada, but we have been unable to find a basis



on which a system could be built up whereby the railway companies would profit, except at very serious sacrifice of the public convenience. In the United States, despite a general desire for economy and cessation of intensive competition, it has been found possible on only two runs to establish a satisfactory pooling arrangement, namely, between Seattle and Portland, and between Duluth, Saint Paul and Minneapolis. The greatest obstacles result from the fact that various railways serve different intra-terminal communities, and in certain large centres such as Montreal, Winnipeg and Vancouver, make use of different stations. While doubtful that substantial advantage can accrue from that source, we are prepared to discuss the problem further with other railway companies to see if the objections and difficulties can be overcome.

I might say there, sir, that since 1925 we have had this problem under discussion with the Canadian National, and I have had many sessions with Sir Henry Thornton with respect to it. We decided at that time -- and we could not reach any other conclusion afterwards -- that the main object of pooling being economy and therefore the cutting down of unnecessary train services, we could accomplish it, to a substantial degree at all events, by mutual agreements, and as a result of that we made agreements in both years, in 1925 and in 1931, which have resulted in very substantial savings to each company in respect of train mileage.

Consideration has also been given to the possibility of some change in the system of operating the railway hotels. The Canadian Pacific has never built a hotel



in any city where there was previously a hotel constructed by its competitors; indeed, there are only three cities in Canada in which there are two railway hotels -- Vancouver, Winnipeg and Halifax. The Halifax situation has already been referred to, and in Vancouver the Canadian National hotel is uncompleted. In Winnipeg the Canadian Pacific has had a hotel for twenty-five years, and the Canadian National for a considerable period. Each hotel was constructed either as a part of, or adjacent to, station facilities of the respective companies. Beyond dealing with these individual cases, there is nothing in the hotel situation which would indicate savings through amalgamation, unless they were operated by an independent hotel company and on a much lower standard.

I think the Commission will appreciate what I mean by that -- that is, if the railway companies maintain these hotels up to the standard that would be expected of them, and it has been a fairly high standard, established by themselves over a long period of years, they could not hope to effect very great economies. But if, as we propose to do in Halifax, an independent company could be induced to operate them, and do so on a lower standard, there would be a possibility of saving. How far we could go in that direction and escape criticism I am not prepared to say. It is very difficult for a railway company owning a hotel which bears its name, even though operated by an independent company, to escape criticisms of service good or bad -- adverse only when they are bad, of course -- or complaints which would be made by travellers or shippers, to the opinion of whom the railway companies are peculiarly





susceptible. In short, they cannot very well avoid their responsibility, no matter how much they sublet the facility.

Apart from the action taken in conjunction with other railways, to which reference has been made already, we have made drastic reductions in passenger train mileage, both in competitive and non-competitive territory. The total reduction made during 1931, from 1930 service, was 2,191,466 miles, or, taking the mileage on a per annum basis, the reduction was 3,258,609 miles.

The following summary will indicate to the Commission the way in which our figures as to possible savings were reached:

Lines Proposed to be Abandoned:

	<u>Miles</u>	
Eastern Lines	598	\$ 902,036
Western Lines	<u>1,140</u>	<u>2,765,850</u>
	1,638	\$3,667,886

Proposed Consolidation of Stations (not included above)

Eastern Lines	45	\$ 177,780
Western Lines	<u>5</u>	<u>15,500</u>
	50	\$ 193,280

Proposed Joint Switching Arrangements, etc.

Eastern Lines	\$1,610,235
Western Lines	<u>400,000</u>
	\$2,010,235

Consolidation of train and boat service south of Armstrong, Okanagan District.. \$ 90,000

Eastern Lines	\$2,690,051
Western Lines	<u>\$3,271,350</u>
	\$5,961,401

SIR JOSEPH FLAVELLE: Would that be about equal as between the two systems?

MR. BEATTY: Do you mean in the savings?

SIR JOSEPH FLAVELLE: Yes.



MR. BEATTY: The savings due to the joint operation -- you want to know to whom it would accrue?

SIR JOSEPH FLAVELLE: Yes.

MR. BEATTY: I do not know whether that division has been made, Mr. Coleman, has it?

MR. COLEMAN: No sir.

MR. BEATTY: Can you estimate it?

MR. COLEMAN: It would be a very difficult, I think.

MR. LLOYD: We would be entitled to our fifty per cent of it, sir. We ought to get at least a half of that saving.

SIR JOSEPH FLAVELLE: It would be approximately a half each.

MR. BEATTY: This figure is not reached in consultation with them, Sir Joseph; it is our own estimate, nor has the feasibility of these proposals been discussed with them, except in a very general way, when the joint committee of officers indicated the areas in which the investigations might be carried out.

SIR JOSEPH FLAVELLE: Does the result of your inquiries show the mileage of each that would be abandoned?

MR. BEATTY: We know that.

SIR JOSEPH FLAVELLE: Would it be about equal?

MR. BEATTY: Not quite. It would be about forty-sixty, Mr. Coleman, wouldn't it?

MR. COLEMAN: Yes.

SIR JOSEPH FLAVELLE: Forty Canadian Pacific and sixty Canadian National?

MR. BEATTY: Yes. That of course is quite



Mr. Beatty

apart from this original mileage I gave you, in respect of which we have already made arrangements for joint operation.

SIR JOSEPH FLAVELLE: With respect to the economies which were effected in 1931 by your joint action in relation to train services, did you make any estimate of the additional amount that would have been spent had you carried your services just as they were before, without having made this joint arrangement?

MR. BEATTY: Mr. Lloyd estimated that, I think, at \$1.50 a mile.

MR. LLOYD: One dollar a mile.

MR. BEATTY: In that case it would be \$3,258,000.

SIR JOSEPH FLAVELLE: That is the reduction of service between Ottawa and Toronto and Montreal?

MR. BEATTY: In both competitive and non-competitive territories.

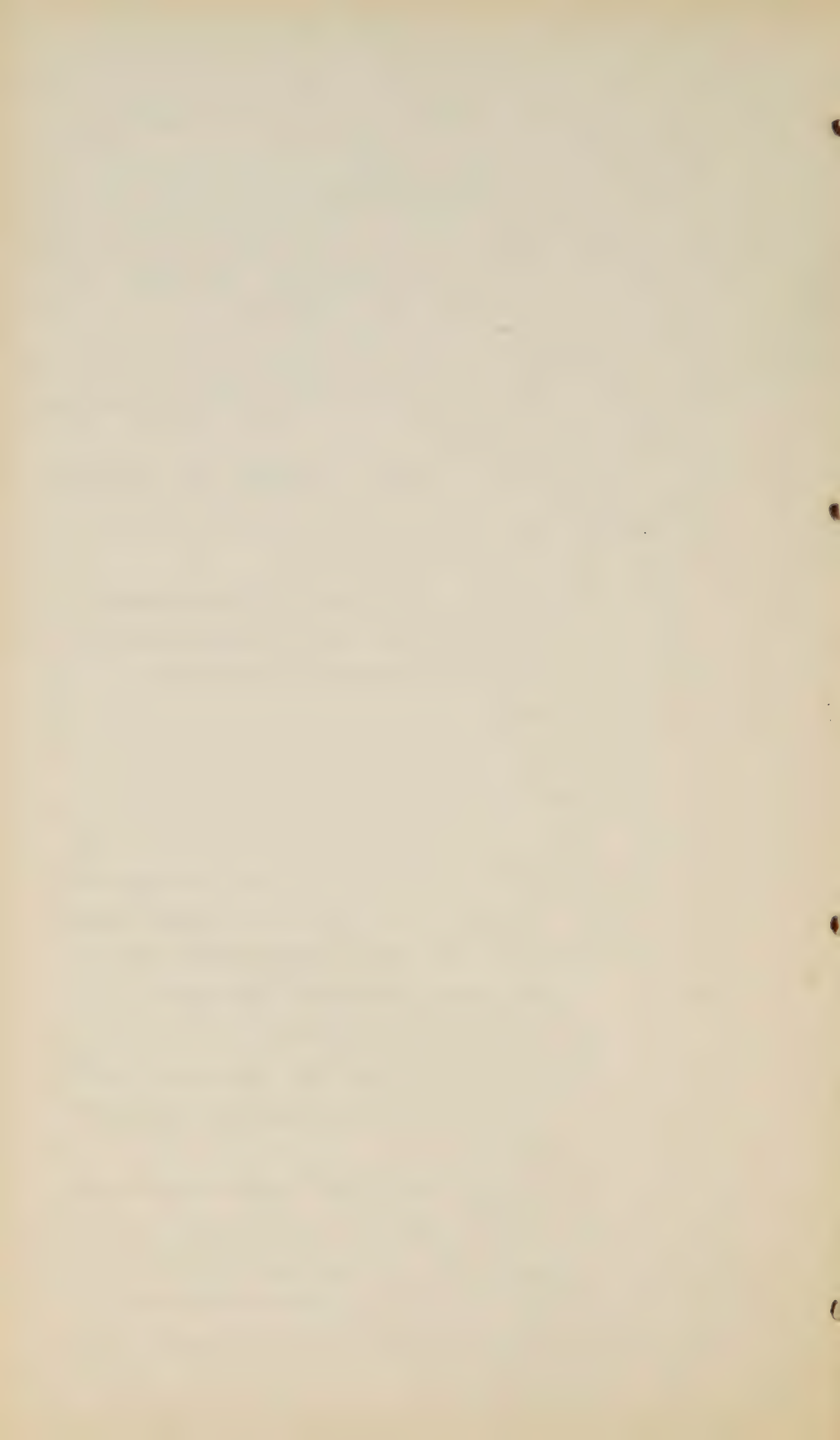
COMMISSIONER LEMAN: That accrues to both companies?

MR. BEATTY: No, that is our own line; theirs is even greater. We started earlier, and we did not build up so high, so that in train services alone their economies made in 1931 would probably be greater than ours.

That was the first question, Sir Joseph, and that is being proceeded with -- I mean, the investigation is not exhausted; but that is a preliminary estimate that our officers have prepared.

COMMISSIONER LEMAN: That is, the economies already effected in 1931, with those contemplated of half of approximately \$6,000,000, would be about six million dollars?

MR. BEATTY: Yes -- of course that is only one item of the economies effected in 1931, in respect of



train services.

SIR JOSEPH FLAVELLE: What were the others?

MR. BEATTY: They were in every branch; every conceivable form of reduction we could think of was put into effect in 1931.

SIR JOSEPH FLAVELLE: Has any attempt been made to estimate what they would amount to in the aggregate as between the two systems?

MR. BEATTY: No, I have not those figures available, but we will have them at the conclusion of our yearly accounts, which will be ready shortly.

COMMISSIONER LEMAN: Take, for instance, the question of reduction in expenditure on shops; that, I suppose, would be more a question of individual action than one of cooperation?

MR. BEATTY: Absolutely; those factors are local to each system.

Now, the other question that I was asked, Mr. Chairman -- I do not know whether you would wish to discuss it at this stage; you may think it premature -- was one put to me before the conclusion of the sitting, as to whether I had any views I would care to express to the Commission on the question of solution.

THE CHAIRMAN: We have been going into it, Mr. Beatty, and I think it would be more satisfactory if we could hear now what you have to say with respect to that. I think Mr. Coleman was asked his views during the trip out west.

MR. BEATTY: It was suggested to me at the previous hearing that I might give the Commission an idea of what I would consider a proper solution of the





railway problem in Canada, and I replied that I thought the question a fair one and that I would be able to do so at a later stage. There are some phases of the matter that require further examination, but I might at the present time indicate some of the factors involved.

The Commission is charged with the very serious duty of recommending such changes in the present railway situation as will permit of substantial economies and the elimination of waste in operation. I presume it may be taken for granted that the very fact that this Commission has been constituted is evidence that in the opinion of the Government economies are essential in the national interest. This being so, what is the condition we find? I shall not deal with the financial situation, because the alarming character of the figures has already been called to the attention of the Commission by the Minister of Railways, but I refer to the position of these two railway systems in relation to each other and in relation to the country itself. One has a mileage of fifteen thousand odd, almost wholly in Canada; the other a mileage of twenty-three thousand odd, by far the largest part of which is in Canada but with important lines in the United States. They are in competition in every province of Canada save Prince Edward Island, and they furnish a character of service as high as any in North America and too high in the light of the returns or the needs of the travelling and shipping public.

Various schemes have been suggested at different times by which the maximum of judicious economy in operation of the two railways might be secured. Some would think government ownership of all the railways desirable,



but I dismiss that as impossible for two reasons; First, because our own experience and that of other countries has indicated beyond the possibility of doubt that this is an inefficient and economically unsound method of operating a huge public service enterprise; and, secondly, because I cannot conceive of any terms which would be within the ability of the government to offer to the Canadian Pacific shareholders which the latter would be justified in accepting. The experience of the last decade makes it clear that such a property could not be operated economically under government control under conditions existing in Canada.

I also dismiss the possibility of a change involving the transfer of the government lines, subject to their existing obligations, to a private company. No private corporation could assume the enormous obligations which the government railways are under. If it did, the project could never be made to yield a profit and the company would find itself unable to finance the undertaking.

Nor do I think that the difficulty can be solved by bringing about a maximum of cooperation between the two railway systems and still retain the assumed advantages of competition between them. The objects of such a suggestion are thoroughly laudable, and are based upon the theory that in public transportation service competition is very desirable and that in no other way can adequate rail service be secured. The possibility of greater cooperation has been suggested in order that the full benefits of competition may be retained but at less expense than free and unrestricted competition would involve. The sufficiency of this as a solution depends upon two considerations:



First, whether the economies will be sufficient; and, secondly, whether it is possible to make them effective and at the same time preserve competition in a major sense. Some light will be thrown upon the first question by the information we are collecting in consequence of a question asked when I last appeared before the Commission, and the doubt suggested by the second consideration can probably only be resolved through actual experience. My own opinion is that the benefits of competition are very gravely exaggerated and the expense incidental thereto, if conducted, is out of proportion to its value to the public. Cooperation which takes the form of joint use of passenger terminals in particular, is readily justifiable provided the cost of making the physical connections is not so great as to render it uneconomical, and any railway executive could readily defend such action to the owners of the property.

In the United States, elaborate passenger facilities have been provided, the cost of which is not warranted by any public or railway advantage thereby secured. I speak with a good deal of conviction on the subject because the provision of extravagant passenger terminals has been something which the Canadian Pacific has sedulously avoided over a long period of years. We think ours are adequate but only in the case of Toronto has the expense been very great.





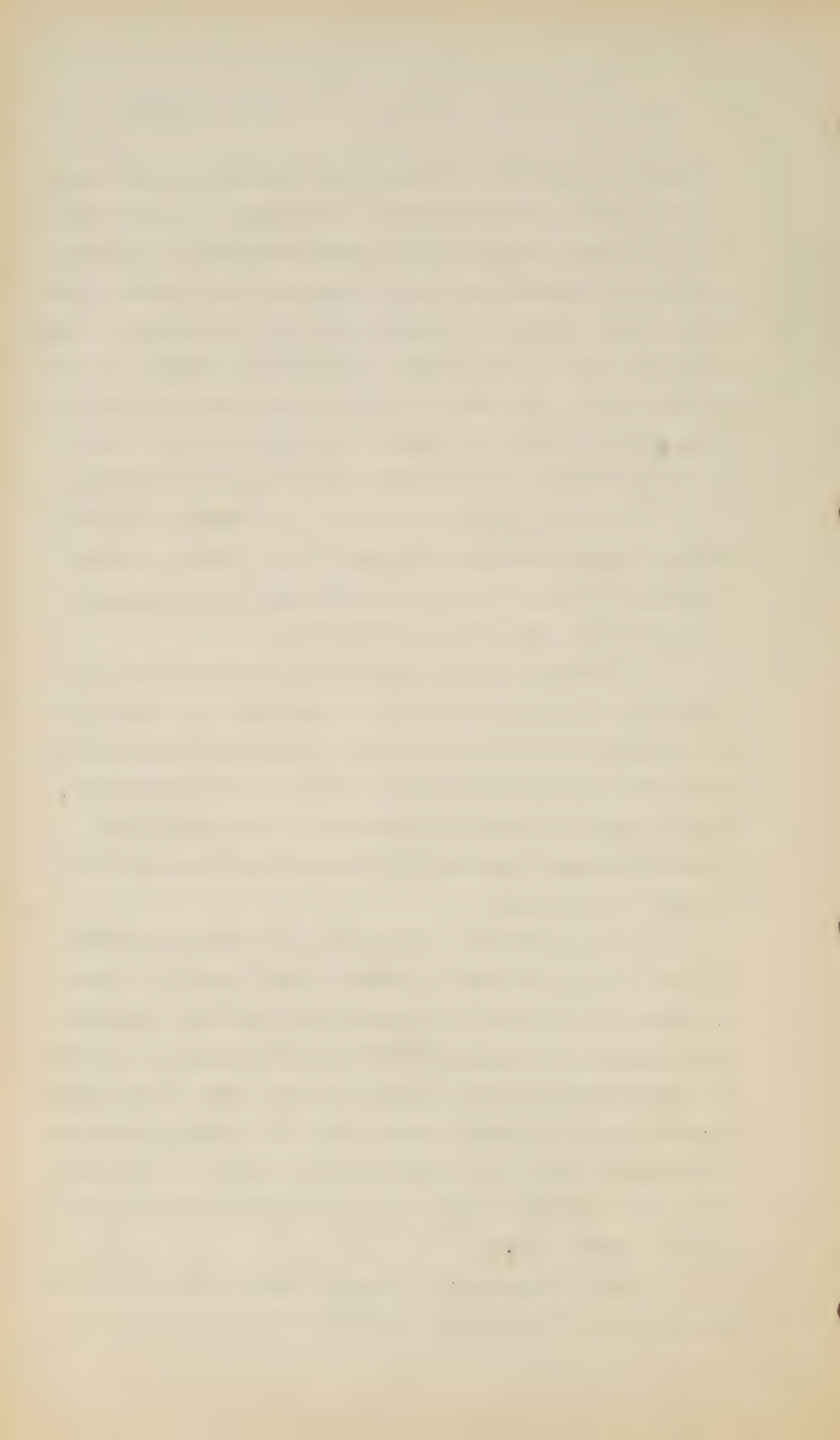
I suggest to you with deference that the object to be sought is the securing of an incentive to efficiency coupled with a sense of responsibility which secures economical operations, and that this result can only be achieved under private operation of the railways of Canada. This belief leads me to the conclusion that under existing conditions in Canada, the only solution which will stand the test of the country's necessities is a consolidation through a lease on a profit sharing basis of the Government railways to the Canadian Pacific.

Naturally, I cannot speak for the Canadian Pacific Railway Company's shareholders, or its directors, at this stage, but I would be fairly certain that such an arrangement could be consummated on fair terms.

I think it would be premature to discuss with the Commission at this time details of the terms, nor do I think it desirable to outline what would be necessary in the way of provision for future financing. These are questions which, while of great importance, must follow a decision of the Commission on the principles of the plan and whether it is feasible or otherwise.

You may properly ask me why I make this suggestion in the light of conflicting opinions which exist in Canada in regard to the forms of railway administration. Impartial consideration of railway problems has been defeated in Canada on occasions by political considerations. The railway duplication which has largely brought about the present situation, was strongly protested by the Canadian Pacific but its protests were unheeded because they ran contrary to the then current public policy.

Lord Shaughnessy's proposals made in 1921 were never properly considered and yet his fears came to be realized.



Ten years later we find ourselves confronted with the same problem, intensified by the large expenditures made meanwhile and with increased unnecessary duplication. The inherent difficulty of the situation, as I stated in my previous submission, lies in the fact that Canada has not sufficient population to create the traffic necessary to support its existing railways, if they are to be operated as two separate competing systems.

Postponement of the solution can only aggravate the situation. The combined net earnings of the two railways in 1928, the greatest year in the history of Canadian transportation, would not be sufficient to pay the dividends ( at the then rate ) and the present fixed charges of the Canadian Pacific and so much of the interest on the debt of the National Railways as is now due to the public. I do not know when another year equal in traffic to that of 1928 will come, but of this I am certain that when it does come the railways will be even less able to meet these outgoings.

What could we expect would be the result of efficient operation of a well managed company? Lord Shaughnessy estimated in 1921 that if the Canadian Pacific operating ratio could be extended to both the Grand Trunk Pacific and Canadian Northern Railways, the saving would be fifty-six million dollars a year. A committee of our statisticians are making a careful investigation of the economies that can be effected, and their findings will be submitted to the Commission as soon as the work is completed.

I think we can safely assume that after a few years - and it would take a few years to organize staffs and make arrangements for re-routing of traffic, for the elimination of unnecessary mileage and reducing the standard of



maintenance where a very high standard of maintenance is no longer necessary, for the closing of stations, combining offices and other economies which could only be gradually effected - after this period of readjustment is over, the savings, even under present subnormal traffic conditions, would equal a substantial portion of the interest due the public on the present government system. With improved conditions, these figures would, of course, be increased, and I would anticipate a gradual reduction in the outstanding interest due the government on advances made to the company.

Objections to this course - none of them directed to the economics of the situation - have been made. First there is the natural objection to what is known as a monopoly. There may perhaps have been good reason in former years why that word should have a sinister meaning in the minds of many people. A monopoly was supposed to be oppressive because large and strong, but some of the most efficient, most wisely administered and most public spirited public corporations on this continent are monopolies. They are in the main successful, efficient and progressive, and they are administered by men of high character and great ability. The spur of competition is very effective but it also is provocative of great waste. I do not know of anything that taxes the judgment and the courage of a business executive more than an attempt to compete strongly and yet not unwisely. You may ask: Admitting that great economies can be effected, how can we provide that the public interest will always be safeguarded and that inadequate or indifferent service will not develop? As to the first, I would say that a tribunal should be established either by enlarging the powers of the present railway commission or by establishing a separate tribunal which would be a court of appeal in any





matter of complaint over inadequacy of facilities or insufficient service or to adjust other matters in which the public interest is involved. We are already regulated and the complaints from the public in respect of Canadian railway services are, I think, on the whole relatively few in number, the most important of them relating, of course, to the question of freight rates, in respect of which there will always be two opinions and for the solution of which a commission exercising judicial functions has been established in this country for twenty-seven years. As to the second point as to the possibility of indifferent service being given, may I suggest to you that the character of a corporation is largely determined by the quality of its management. Perhaps we have all been educated as to our public duties in the last decade and consider ourselves a little more sensitive to public opinion than did our predecessors, but the fact is that wise executive and administrative operation involves a scrupulous regard for these public responsibilities, and the proof of it in Canada so far as the Canadian Pacific is concerned lies in the fact that no places in Canada receive more adequate and efficient transportation service than does the non-competitive territory on its line - for example, places such as Three Rivers in the Province of Quebec and the southern territory in Alberta and British Columbia.

Shippers in Canada need have no fear of a regulated monopoly of but one phase of our transportation business, especially one which for many years will require to show results which can only be obtained by efficiency and economy.

Objections have been made as to the wisdom of attempting a permanent solution of Canada's railway difficulties during a period when traffic and revenue conditions are





acutely subnormal. The answer to these objections, which almost immediately occurs to anyone familiar with the situation, is that the danger of any policy of moderate reformation is grave and the credit, and indeed the solvency, of the country may well be seriously menaced unless an immediate and constructive policy can be evolved.

Now, those views, Mr. Chairman, are the result of a lot of experience -- it is true with one railway only -- and careful study of the development of transportation in Canada over the past thirty years, with the last fifteen of which personally I have been very familiar.

If I could think of a middle course which would have perhaps more popular features than the one I am suggesting, I would be very glad to submit it to the Commission. I am oppressed with this consideration, that whenever a railway problem has had to be reviewed in Canada, the real facts have never been thoroughly appreciated by those who form or create public opinion. Even today, when our national obligations are so heavy as to cause considerable apprehension, in some quarters there is an indifference as to the railways and what will become of them that to me is perfectly amazing.

These transportation systems represent a capital of over three billion dollars; they are the greatest single agency in Canada; they have been the greatest settlement agencies and the greatest assistance in the development of the country over a long period of years. And yet there is a feeling throughout the country, at least in some parts, that all you have to do is wave a magic wand of some kind and these companies will come through and function as formerly without very much cost to anyone. The Canadian Pacific



is reputed to be a wealthy corporation, the treasury of the government is supposed to be limitless, and we are met with solutions that are based upon a complete forgetfulness of the fact that the Canadian Pacific has not got unlimited means, nor can the credit of this country stand many more serious assaults.

The position as I see it -- and I am a terrific optimist on the future of the country -- is that it would take many years for us to hope to get back through ordinary traffic increases to a condition of prosperity which would be regarded as satisfactory. Our sparse population of necessity means a slow development in traffic. Our rate situation is such that general blanket heavy increases are scarcely possible, and if they were attempted the benefits from them we would not hope to receive. We are met on the one side by water competition, which is cheaper than our form of transportation under the present system, and on the other by road competition, which is also cheaper, and both having advantages which the railways do not enjoy. So that factor makes me think that complete relief -- some, yes -- but complete relief through increase in freight charges is scarcely a possibility.

And then when we consider the effect of freight rates on the development of Canada through making the cost of distribution easier on the original producer, we must be impressed with the fact that our scales have been set up with the idea of minimizing the natural effect of distance. It is true we have the lowest freight rates in the world, but we also have the longest distances to the primary markets. These are considerations which have to do with the



building up of the country. I do not think we can entirely overlook them and treat freight rates as purely a mathematical problem having no result but to make railways prosperous or otherwise.

The question has been debated off and on in Canada for a good many years -- every time we have a railway problem it is debated more and more -- but it is always debated without, it seems to me, adequate knowledge of the financial considerations involved and what the country has paid and is paying for its transportation over a considerable period of years.

I do not know of any other way in which we can get these maximum economies. The figures will speak for themselves when they are submitted, but I believe that the estimate of 1921 will be exceeded, and that after the period of readjustment is over it may be even substantially exceeded. If that is so, then of course you can realize, depending upon the terms that are made, that we will be in a fair way of meeting our fixed charges on the National Railways due the public, without doing any injustice to the investors in the private enterprise.

These suggestions of course can be elaborated almost indefinitely, and if you think it wise they could be in respect of various details which are important; but the most important feature of the whole question is the formulation of a plan whereby efficiency can be maintained, economies secured, and the public interest protected.

I have no objection to regulation. In fact I believe we are regulated by public opinion almost more than we are by the decisions of tribunals. But regulation has been





practiced in Canada since 1904. While we grew up without it, it has been fairly successful, and the work of the railway commission on the whole has been of very substantial worth to Canada. The powers of that board are not as great as those of some other similar tribunals. They might be increased, if it were thought wise to do so, and permit an even more careful scrutiny of the operations of the railways, particularly in relation to their public services, without doing the companies or their managements any serious harm. But perhaps that discussion is a little bit premature, sir.

THE CHAIRMAN: You do not indicate, Mr. Beatty, the extent of the relief which you contemplate to the public finances.

MR. BEATTY: No sir. That of course would depend in a measure on the terms of the lease arranged between the owners or determined by this Commission. The reason why the principle of consolidation appeals to me is the fact that both companies would share in every economy effected. The pot becomes a common one; it may be divided in agreed proportions between the owners -- the government and ourselves. But if the maximum economy can be secured only through consolidation, then the maximum benefit to the present owners of the two properties can only be secured in the same way.

LORD ASHFIELD: In your memorandum, Mr. Beatty, you jump from cooperation to a lease. You do not make very clear why it is that under a lease you can effect economies which would be substantially greater than under similar cooperation.

MR. BEATTY: Because one is complete, sir, and the other is only partial if you retain the competitive element



between the two companies.

LORD ASHFIELD: You mean under cooperation there is bound to be a competitive element somewhere that sooner or later would break out?

MR. BEATTY: Yes.

LORD ASHFIELD: What you are suggesting is a common fund and a common management?

MR. BEATTY: Yes, a common board of directors.

SIR JOSEPH FLAVELLE: A lease in perpetuity?

MR. BEATTY: It would have to be a long period to get the full benefits, and I think perpetuity would be as long as we could make it.

LORD ASHFIELD: You would want complete freedom in dealing with the physical assets of both undertakings?

MR. BEATTY: Yes, in order to get the maximum economy.

SIR JOSEPH FLAVELLE: Have you in mind under your lease a sliding scale?

MR. BEATTY: I had in mind, Sir Joseph, certain fixed amounts would be determined, and after that the receipts should be divided in certain agreed percentages.

LORD ASHFIELD: Gross receipts?

MR. BEATTY: No, net receipts.

SIR JOSEPH FLAVELLE: That is to say, where the government is at present, roughly speaking, responsible for a billion three hundred million annually --

MR. BEATTY: No sir, they are responsible for fifty-seven and a half million annually due the public.

SIR JOSEPH FLAVELLE: All right. I am thinking of the fixed obligations of the government. They run into about a billion three hundred million dollars, the interest upon which, you say, is about fifty-seven and a half million



dollars.

MR. BEATTY: That is due the public.

SIR JOSEPH FLAVELLE: They have in addition to that \$406,000,000 invested in the government system of railways, a part of which they have never issued in securities, that is, the Intercolonial and National Transcontinental and a series of small roads in the Maritime Provinces chiefly. Is it your idea that under the lease there would come a time when you would repay to the government that sum for which they are responsible, or take their place in making the payments?

MR. BEATTY: In time, even without a spectacular development in this county, I should think that the receipts of the joint properties would be sufficient to pay all the interest due the public and a very substantial part of the interest due the government.

SIR JOSEPH FLAVELLE: That is, the interest due the government on the \$600,000,000 they have loaned and the \$400,000,000 they have invested in the other railways?

MR. BEATTY: Whatever represents their legitimate investment. There are a lot of figures in those totals that represent expenditures not on the property, but expenditures to meet liabilities on the property, and therefore not assets in that sense of the word.

SIR JOSEPH FLAVELLE: I suppose, however, that the billion two hundred and fifty million of indebtedness to the public is represented by money that went into the enterprise.

MR. BEATTY: All of it I should think.

SIR JOSEPH FLAVELLE: Then the \$400,000,000 which was



expended on the Intercolonial and on the National Trans-continental is practically money which was spent.

MR. BEATTY: Yes.

SIR JOSEPH FLAVELLE: Of the \$600,000,000 of debt which is due, I do not know how much is for deficits, if any.

MR. BEATTY: Some of it undoubtedly is.

SIR JOSEPH FLAVELLE: I do not know whether some is for loans irrespective of deficits or not. Probably it would include deficits.

MR. BEATTY: They would be, Sir Joseph, for this reason, that at various times the government has been compelled to borrow money to pay those deficits, which they added to the capital account of the National Railways.

SIR JOSEPH FLAVELLE: Quite so. Your scheme has in mind the release of the country in due course from liability for these sums due the public, and possibly for the sums due the government for the Intercolonial and National Trans-continental systems?

MR. BEATTY: Yes.

SIR JOSEPH FLAVELLE: It is the liability to the public which, roughly speaking, is one billion two hundred and fifty million plus four hundred million odd for the National Trans-continental and Intercolonial, which represents practically all the railways in the country except the T. & N.O.

MR. BEATTY: A few others -- the New York and Ottawa and the T. H. & P.

SIR JOSEPH FLAVELLE: And you are under the impression that that result would be reached within a tolerably early period under one administration?

MR. BEATTY: I would not care to guess the number of





years it would take, Sir Joseph, because I have always felt it would take from three to five years to complete the consolidation and get your maximum results.

SIR JOSEPH FLAVELLE: To get the economies which would result from consolidation?

MR. BEATTY: Yes.

SIR JOSEPH FLAVELLE: There are two aspects, Mr. Beatty, of such a unified holding. There is the political, which the government must deal with as to whether it is possible or not. The other aspect bothers me -- whether any single executive body can be entrusted with the responsibility of interpreting for the community the service necessary under the diverse circumstances that we have in Canada. Is there any parallel for it anywhere?

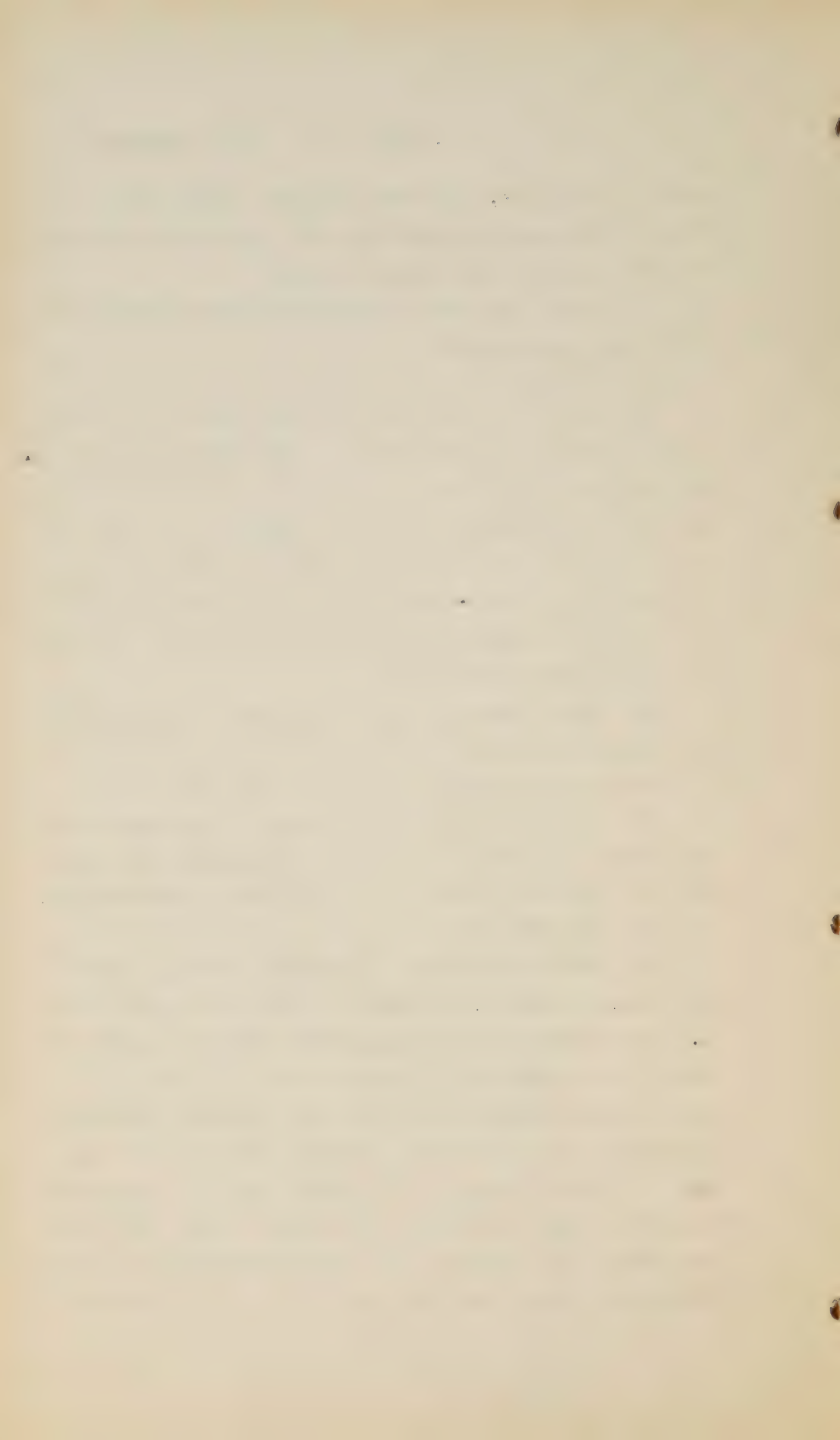
MR. BEATTY: Not to this extent. Of course, monopolies in transportation exist.

SIR JOSEPH FLAVELLE: Germany is suggested.

MR. BEATTY: Germany has practically a government system. France has two, a government system operating in one area and a privately owned system operating in another area.

THE CHAIRMAN: Italy?

MR. BEATTY: Italy's is a government system. I have felt this, Sir Joseph, in looking at what the results would be,-- I am omitting for the moment the political aspect, because I am not competent to judge of that,-- I have always felt that, once the real situation was appreciated through the decision of an impartial tribunal, none of us can minimize the effect of that on the public mind, so I am willing to let that take its course. But so far as the other factor you mention is concerned, could we secure adequate service, I think we could in two ways. This is not a transportation



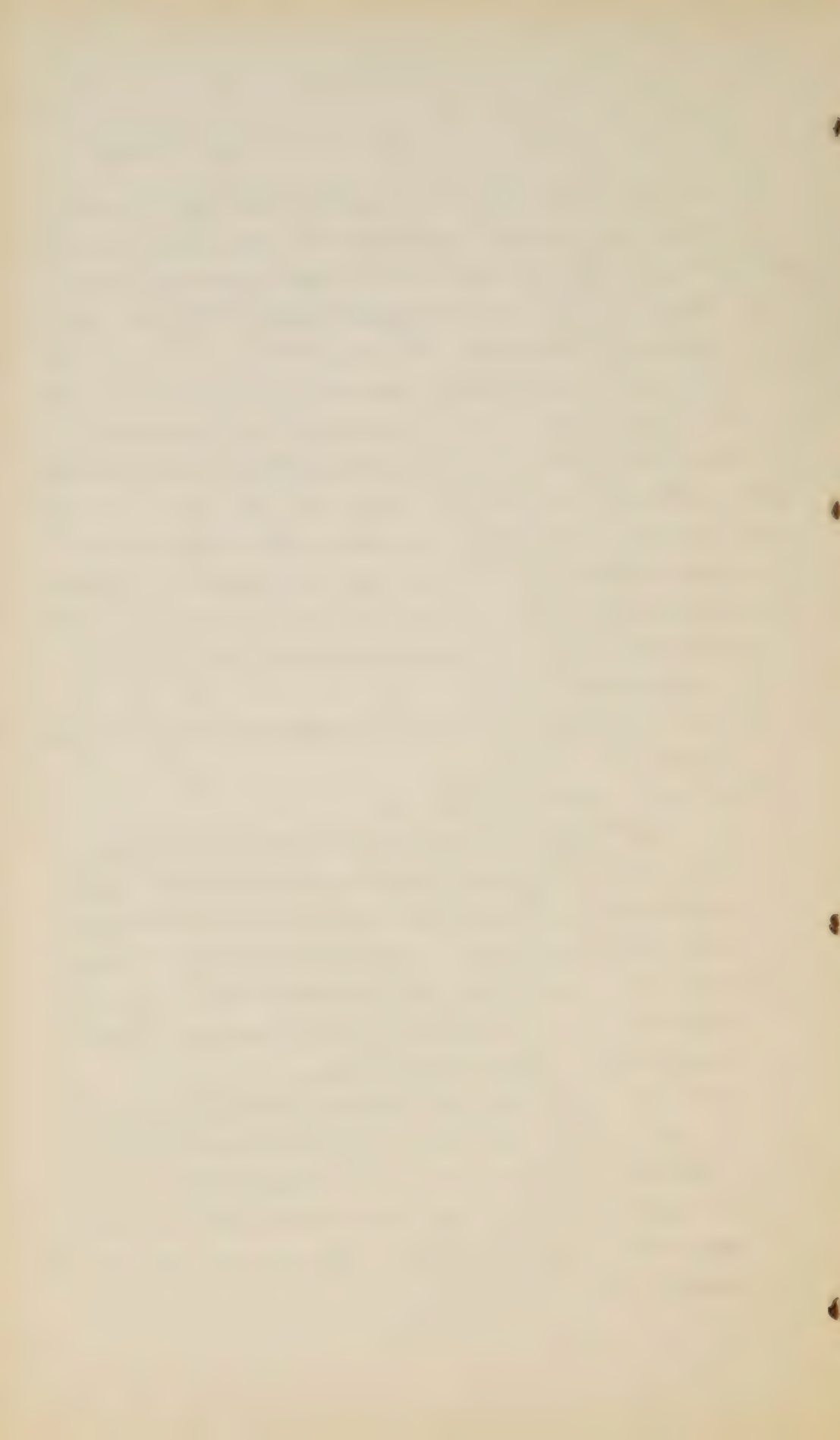
monopoly. It is possible in certain cases and at certain times, but, generally speaking, it is not possible in Canada. We have still to compete with the motor trucks and motor buses and the waterways for eight months of the year, and probably we always will. But we have an over-riding tribunal with very ample powers composed, let us say, of the highest type of men. Surely we can assume that the public rights will not be invaded by this monopoly when so many restrictions are placed upon their operations, even if it were wise to do so. I am not very much impressed with the argument which suggests that because a thing is large it is therefore unfair and a menace. We have all been regulated for so long that those evils have disappeared out of our operations to a large extent.

SIR JOSEPH FLAVELLE: I am not thinking of a malevolent spirit --

MR. BEATTY: Selfish, say.

SIR JOSEPH FLAVELLE:-- seeking to deny the public their fair needs. But in regard to this remarkable corporation which would necessarily follow, I am not altogether sure of the capacity of its executive to interpret, without the whip of competition, what the public have a right to secure in the way of service. We have seen very clearly the mischief of a competitive situation.

MR. BEATTY: Has this occurred to you, Sir Joseph, that by reason of the very nature of this institution the very best brains of Canada would almost automatically be found on its board, the best as well as the ablest type of citizens? Now, can any corporation, be it large or small, get more than that?



LORD ASHFIELD: Arising out of Sir Joseph's question, let me ask you this: In the last ten years, say, has your policy in directing the affairs of the Canadian Pacific Railway been affected in any way by what has been done by the Canadian National Railways?

MR. BEATTY: Oh, very materially.

LORD ASHFIELD: Would you describe your policy as an extravagant one, due to the policy of the Canadian National Railways?

MR. BEATTY: We were forced into unnecessary expenditures in order to keep our place, as we thought, because we were faced with this difficulty.

LORD ASHFIELD: They forced the pace?

MR. BEATTY: Yes, Lord Ashfield. For a great many years we had been in occupation of the Transcontinental field, and these newcomers -- I am not criticizing them; it was a matter of executive policy and was supported by their owners, the government -- embarked upon a great policy of expansion, of meeting us in competitive services -- in fast train service, fine equipment and larger power. In order to meet that we had either to compete or drop behind and lose the traffic, because we are in competition in so many places right across the continent. We decided that we could not afford not to meet that competition, that we would lose more in the way of traffic than we would lose in the expenses involved in meeting that kind of competition. Now, we have been accustomed to call it an unfair competition. The reason why that word has been used -- and it has not been used in any malevolent sense -- is this: We were a private institution doing very well, we thought we were well-officered and fairly efficient





in our operations, but we had not unlimited powers in competition because we had not unlimited financial resources; the government had apparently, because a great deal of money was appropriated for competitive transportation service. We met it as best we could. I do not think we overdid it, we tried not to, but it was expensive and a good deal of it might, I think, have been avoided.

LORD ASHFIELD: It had the effect of providing an unexcelled system of transportation for Canada, taking the two together.

MR. BEATTY: Exactly. As a matter of fact, Lord Ashfield, the more you study our transportation services in this country the more you see how we have misled or pampered our customers in the character of the services we render. It is extremely high grade for a country of our population and traffic. We have services comparable, I think, to the best services in the United States, where until quite recently their conditions were quite dissimilar from ours.

LORD ASHFIELD: I take it your view, Mr. Beatty, would be this, that so long as the present conditions continue you must anticipate an extravagant operation of these undertakings?

MR. BEATTY: I would say so for this reason, Lord Ashfield, we might have got religion for a few years in respect to economies because of necessity.

LORD ASHFIELD: "The devil was ill" sort of attitude.

MR. BEATTY: Yes. Our railway operations, so far as the government system is concerned, must of necessity be affected by government policies. Nobody knows when a government will come into power which might think it wise in the



nation's interest that we should expand, and if we have to follow suit, then of course the difficulties will be greater in future years than even they are today.

LORD ASHFIELD: Mr. Beatty, on this question of giving wider powers to a tribunal, whether the existing one or a new tribunal, I take it that is not material at the moment?

MR. BEATTY: No.

LORD ASHFIELD: Would it be your view that this tribunal -- seeking as it would of course to look after the public interest in the event of failure on the part of this great corporation to serve the public properly -- should have certain powers to enforce their decisions on the corporation?

MR. BEATTY: Yes, I would agree.

LORD ASHFIELD: Would you agree that both services and rates should come within the scope of this tribunal, or should there be separate tribunals, one for services and the other for rates?

MR. BEATTY: I do not think it makes much difference if your tribunal is properly constituted.

LORD ASHFIELD: Would you have a restriction put on the tribunal with respect to the financial position; would you ask for some protection there?

MR. BEATTY: The Interstate Commerce Commission has power to appraise all issues of securities by American railroads. In order to secure that approval you have to justify the purpose of the issue; in other words, to an extent you have to justify your judgment in betterments, extensions or improvements. I do not see anything unfair in that condition.

COMMISSIONER LORRE: Do you think that power has been very wisely administered?



MR. BEATTY: The condition would not be the same in your country, Mr. Loree, where you have nothing but private institutions competing with one another. This is a case of super-regulation of a monopoly.

COMMISSIONER LOREE: Might not the conditions here be worse than they are in the States?

MR. BEATTY: I hope not.

LORD ASHFIELD: Taking the reverse position, do you suggest that the tribunal should not be able to enforce any decision upon this corporation if as a result of that enforcement the financial position of the corporation would be prejudiced?

MR. BEATTY: I should think that would be a condition precedent to the exercise of their powers, but how it could be controlled under our constitution I do not know; it is not the same as that of the United States.

SIR JOSEPH FLAVELLE: You could not have a situation such as his Lordship has suggested, I would judge, where the tribunal are limited in their power to require service, but unlimited in their power as to checking expenditures. You and I are well aware, Mr. Beatty, that a small executive controls the operations of a great corporation; all the board can do is wisely to choose the men.

MR. BEATTY: The board cannot operate the property, I admit that.

SIR JOSEPH FLAVELLE: It is those men who administer the affairs of the corporation. The board cannot know anything about the numberless details that immensely affect those who make use of the corporation. Now, if there was a super-board it would be named by the government, I suppose?



MR. BEATTY: Yes.

SIR JOSEPH FLAVELLE: It is no secret that from time to time the railway board has become a harbour for politicians?

MR. BEATTY: That is true.

SIR JOSEPH FLAVELLE: And the importance of the board has at various times been greatly weakened.

MR. BEATTY: It has been affected by individual appointments from time to time undoubtedly. But, Sir Joseph, don't forget this, that under the statute today our Railway Commission has power to tell us what to do with our facilities, and has the power to require certain services, on the petition of any individual or public body.

SIR JOSEPH FLAVELLE: Under competition it has not been necessary for the board to exercise that power.

MR. BEATTY: No, but they have that power.

THE CHAIRMAN: Have you considered, Mr. Beatty, what immediate relief might be anticipated at the expiration of your period of incubation, so to speak, of three or five years, as the case may be?

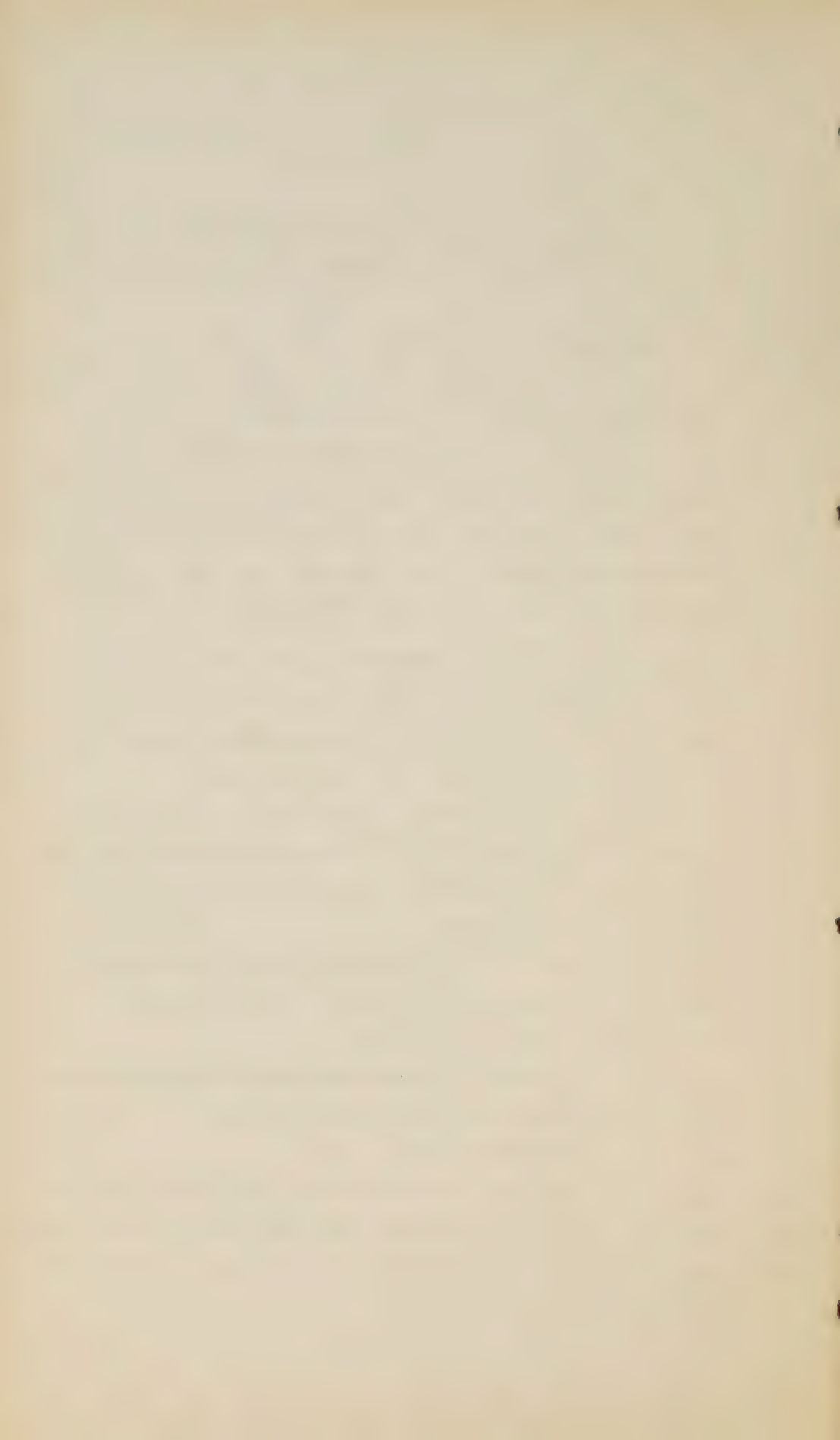
MR. BEATTY: The figures will show it more accurately, but I should anticipate something in the vicinity of \$60,000,000 a year.

LORD ASHFIELD: You mean a \$60,000,000 saving based upon the results of 1931 of both systems together?

MR. BEATTY: Yes, sir.

LORD ASHFIELD: Mr. Beatty, I do not know whether you have a programme in connection with your administration which makes some attempt to determine your capital needs for several years in advance?





MR. BEATTY: No, not for several years in advance. Our capital needs are determined each year, with the possibility of running into two years through the approval obtained in one; that is, we appropriate a certain sum of money for a certain work, and we know we may not complete it in one fiscal year, and that appropriation takes us through the case. But outside of that our appropriations are all defined year by year.

LORD ASHFIELD: Let me put my question in another way. Assuming these systems were brought together under some leasing plan, do you contemplate that the capital expenditure would be upon a lower basis under that arrangement than would be the case if they were separate?

MR. BEATTY: Much lower, sir, because of the utilization of each others facilities.

LORD ASHFIELD: You mean by pooling each other resources you get an immense advantage?

MR. BEATTY: Yes.

SIR JOSEPH FLAVELLE: Of course, one has only to think of the vast network of mileage over the prairies to realize that under one administration where there was no embarrassment with respect to ownership a great many things would happen.

MR. BEATTY: A great many.

LORD ASHFIELD: You have already answered this question, but as a matter of clarity I should like to put it to you again, Mr. Beatty. You have had great experience and occupy a very high position, if I may say so, not only in Canada but in the railway industry throughout the world. Assuming this proposal of yours is made effective, is there doubt



in your mind as to the ability of those responsible for the management of this undertaking in carrying it on successfully, notwithstanding its size, its far flung character?

MR. BEATTY: It is a matter of scientific organization.

LORD ASHFIELD: You are not afraid of its size?

MR. BEATTY: Not a bit.

LORD ASHFIELD: You have studied that, and are satisfied it can be done?

MR. BEATTY: Yes.

COMMISSIONER LOREE: Could you extend that indefinitely?

MR. BEATTY: I do not need to contemplate an indefinite extension; it is big enough -- thirty eight thousand miles would be involved. An organization can be set up, based upon the organization that we presently have. It would simply be an expansion of it.

COMMISSIONER LOREE: I wondered where the capacity ended. We have the same problem in the States. We are talking of four systems in the east.

MR. BEATTY: You have only one president for one hundred and twenty million people.

COMMISSIONER LOREE: Well, some people find fault with him.

SIR JOSEPH FLAVELL: I do not suppose, Mr. Beatty, doubt would necessarily arise as to the capacity of a scientific organization to carry on successfully the technical part of the work. The doubt arises with respect to the limited capacity that belongs to senior executives to interpret -- if I may use such a term in relation to railways -- the spiritual side of the situation.



MR. BEATTY: No, Sir Joseph, you should not use that expression.

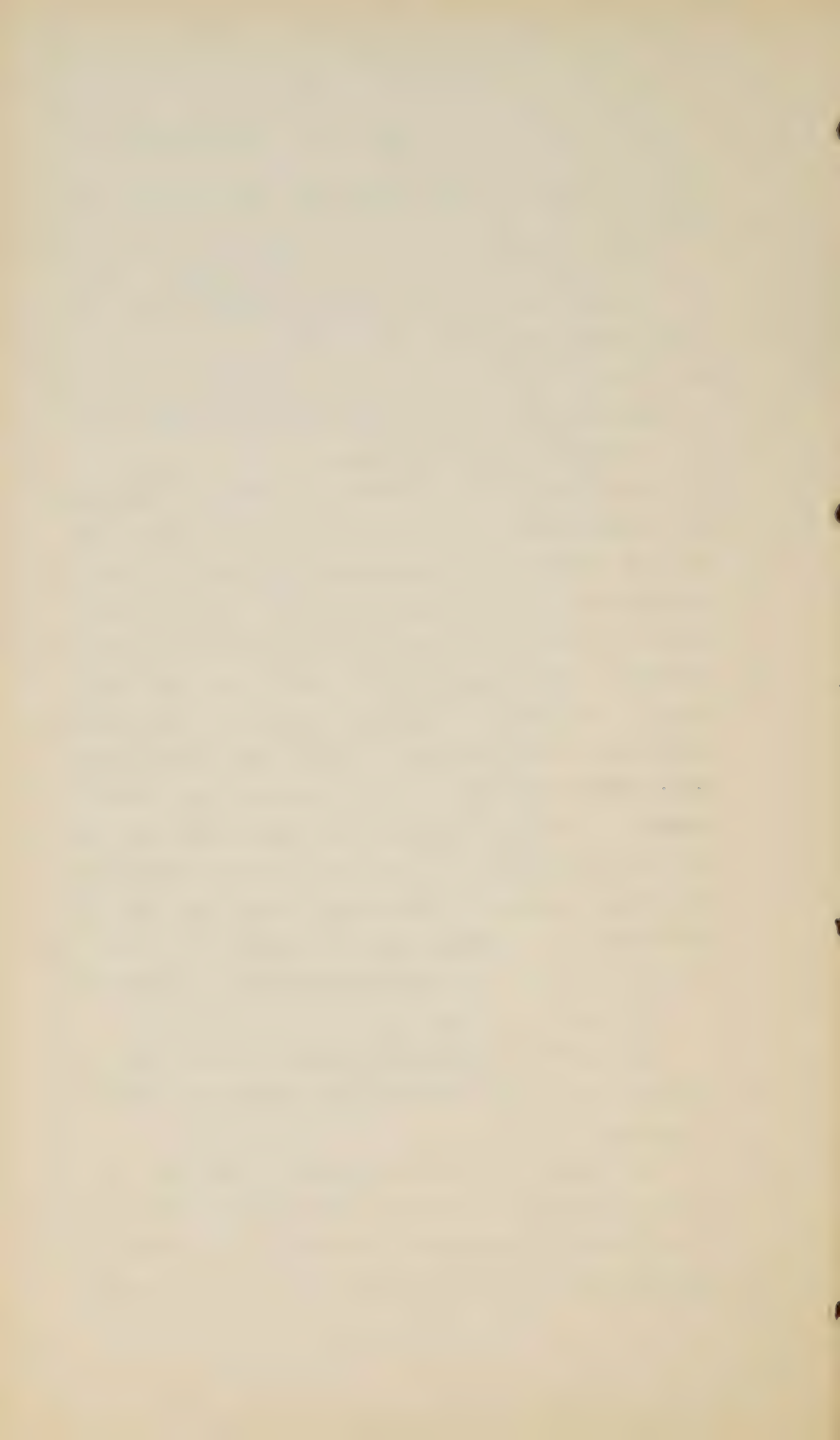
SIR JOSEPH FLAVELLE: Well, as we centralize power over immense areas we seem to fail to get the interpretive spirit of what the subject needs. That is one of the reasons why, wisely or unwisely, we got rid of absolute monarchy. It would be a little difficult to go back to absolute monarchy anywhere in the world today.

MR. BEATTY: I do not think the question of autocracy can possibly arise in this connection. As I said, I think we would attract to that corporation the best business brains in Canada and the wisest men in Canada. I have no doubt about our being able to obtain the technical skill which is required to operate these railroads, nor do I think we are short of administrative material, nor even of the executive material, to carry on, because this railway, large if you like, would of necessity be very susceptible to public opinion. It is a public service corporation. The men at its head would have to be very wise men, they would have to be business statesmen of the highest type. But, as I tried to indicate in the memorandum, no corporation is better than the men in it, and you cannot make it good by legislation.

SIR JOSEPH FLAVELLE: No.

COMMISSIONER LORRE: The difficulty would be in selecting that type of man. He would be sought by the financial interests.

MR. BEATTY: He would be selected by his board of directors, and there, as I say, you would have the best ability that this country can furnish. If we cannot rely on ourselves there, I think we will be in a pretty hopeless





position. I have enough confidence in the people of this country to think that we can develop the type of men we will require in this corporation.

COMMISSIONER LOREE: He might be like the first class tenor, only born once in three generations. Then you might have to write your music down to a lower scale. That is what I am suggesting might happen.

MR. BEATTY: A first class baritone might be better than a first class tenor -- there are more of the former.

LORD ASHFIELD: Taking it seriously, Mr. Beatty, the fusion of these two undertakings does not cover any wider territory than you are operating today.

MR. BEATTY: Not geographically, no.

LORD ASHFIELD: Geographically it is the same thing. It does suggest itself to me that it might be just as difficult a property to administer if you have two separate undertakings to deal with and attempt cooperation than would be the case if you have one undertaking under one management.

MR. BEATTY: Cooperation involves much greater difficulties than this plan. Cooperation is difficult because its limits are so obvious..

LORD ASHFIELD: It is so unsatisfactory at times, there is more irritation.

COMMISSIONER MURRAY: A benevolent autocracy is all right, but the fear of tyranny is very deeply ingrained in the people, and while your public board might protect, would it protect sufficiently their interests?

MR. BEATTY: The efficiency of a corporation like this and its ability to satisfy the public depends upon the officers; it would not depend upon the over-riding tribunal,

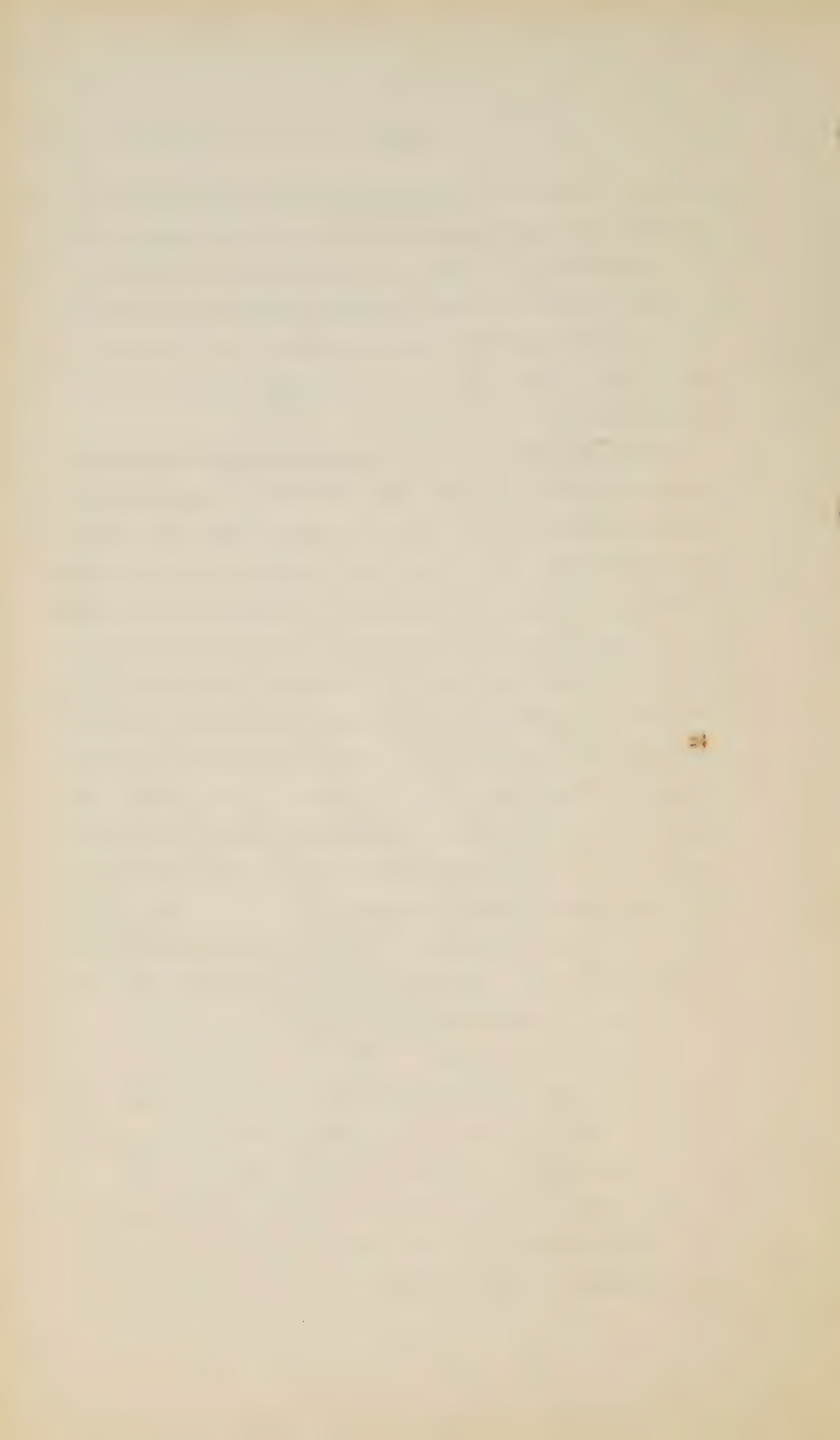


no matter how wide the powers you gave it happened to be. The success of such a corporation would depend upon a proper appreciation by the officers of their public responsibilities. The individual railway officers are as good a type of Canadians as I know of, and with that in their makeup I have no fear that they would not live up to their obligations.

SIR JOSEPH FLAVELLE: We are struggling, Mr. Beatty, to see if an effort can not be made to limit the operation of too many transcontinental lines, too many miles of railway, so as to make one good dollar come back for another and pay at least the interest on the money invested that is due the public. Now a single corporate body, applying itself to the limiting of these services or of the miles of railway travelled, would be confronted with the suspicion of the community affected, which would create a situation difficult for the operator and difficult for the country. That, however, is a matter for the government to determine. But I come back again to this, not the difficulty of getting the technical skill, not the difficulty of multiplying by two what is now done by one body of officers; it is that subtle thing that you have mentioned. I attempted to call it spiritual. It is that sense of responsibility to the public.

MR. BEATTY: Yes, sir.

SIR JOSEPH FLAVELLE: That may be in one executive and not in the other; it may be in a generation of ten years or more. We are legislating for the future needs of the country, and the adoption of your suggestion would mean one system of railways in this country for all time to come, unless parliament intervened and said, "It is intolerable;



we will break it up." I quite accept your interpretation that each successive body will be selected from the fittest men in the country; they in turn will choose their senior executive officer, and if they choose wisely a youngish man his tenure of office presumably will run to fifteen or twenty-five years. But I am in great perplexity as to whether that autocratic power can be vested in a single executive body. I see the difficulty of the other -- we are confronted with it. I did hope that perhaps it would be possible to discover a way out. I quite recognize your figure of speech, that you can have religion for a time when things go badly, but when they go well there will be a change of heart and it will be, "to hell with religion; every man for himself." On the other hand, you are legislating in perpetuity for a territory of immense extent.

MR. BEATTY: Sir Joseph, do you think there is any greater difficulty to select one man of the type of the executive that you and I are discussing to administer 38,000 miles of railway than to select two men to administer 18,000 or 20,000 miles each?

SIR JOSEPH FLAVELLE: No; but unfortunately as yet we have not developed supermen to make it unnecessary that we be flogged a bit to do our duty.

MR. BEATTY: You do not think, then, there can be any peace in transportation without war?

SIR JOSEPH FLAVELLE: I should not like to term it war.

MR. BEATTY: It is pretty close to it.

SIR JOSEPH FLAVELLE: We have not yet discovered so far as I know any field of human endeavour that we can pass over to a very small group for determination of policy affecting





the interests of the public.

MR. BEATTY: Then let us look at the alternative for a moment, Sir Joseph. The alternative is competition, because you say in effect, and quite truly, that competition constitutes regulation in itself.

SIR JOSEPH FLAVELLE: Yes.

MR. BEATTY: But can we afford competition?

SIR JOSEPH FLAVELLE: It depends entirely, Mr. Beatty, on whether it is possible -- I do not claim it is possible-- to carry into competition a recognition of the necessity in the defence of their own property for the exercise of such sanity as should exist between sensible men. But this means the turning over of the people of Canada in perpetuity, or until such time as a revolution brings about a change, to the control of those who will administer this great consolidation of the railway properties of the country. I really hoped you would not find it necessary to dismiss so completely the element of working out the situation together.

MR. BEATTY: Sir Joseph, if I could find enough results in it -- you can see from the approximate figures I have given you, which you may regard in some respects as incomplete --

SIR JOSEPH FLAVELLE: They are disappointing.

MR. BEATTY: I should not say disappointing; I am surprised that they are not larger. But the possible savings through that form of cooperation are always limited. You maintain there one great expense -- competition.

SIR JOSEPH FLAVELLE: Curiously enough, that is the safeguard of the consumer; sometimes the punishment of him





too.

LORDASHFIELD: If both you and the Canadian National had a free hand cooperatively to work these undertakings on the most economical basis, it is not clear to my mind, Mr. Beatty, where the element of competition would come in.

MR. BEATTY: Because it is limited by the opportunities for cooperation, Lord Ashfield. We must run our parallel services throughout the country. We join in various places and save a certain amount of money by doing so. But we are in different sets of owners' hands, different security owners, each of whom we have to protect.

LORD ASHFIELD: If those security holders said, "We will give you an absolutely free hand to work these undertakings on exactly the same basis as if you had a leasing arrangement," and that was going to produce the same result as the leasing arrangement, I am not clear that there would be any competition at all. It would come to the same result.

MR. BEATTY: There would not be quite as great a degree of competition, but --

LORD ASHFIELD: Therefore if you are trying to get full economy you might get rid of competition.

MR. BEATTY: Quite true; but if you said to your shareholders: "You retain your ownership in this property, but it is to be operated as their property, and we want power to rip up tracks, and so on," you would not get their authority to do so.

LORD ASHFIELD: I agree it is a question of method. But following Sir Joseph's line of thought, if you are going to secure the maximum advantages from cooperation, you eliminate competition.



MR. BEATTY: You cannot help it.

LORD ASHFIELD: Under this leasing arrangement of the Canadian National to the Canadian Pacific, do you speak of the Canadian Pacific as a company or as a railway?

MR. BEATTY: I speak of it as a railway in the first instance, Lord Ashfield. The problem before us in Canada is rail transportation principally, and of course the major source of our revenues and of our expenditures are those big systems. We have investments in entirely outside enterprises, some of which we inherited and could not avoid, and which I do not think should form any part of a consolidated system. But I do think that everything we have which is operated in connection with our railways forms part of our transportation system and should be constituted as such.

LORD ASHFIELD: Would that include grants of land?

MR. BEATTY: Grants of land remaining are part of the assets of the company which might or might not be reserved for the benefit of the shareholders; the same as our investment in the Consolidated Mining and Smelting Company, which is an investment of the shareholders and should be reserved too. I did not go intensely into the details because there are a great many sorts of property which might be eliminated.

LORD ASHFIELD: You do not commit yourself one way or the other at the moment?

MR. BEATTY: No.

COMMISSIONER LORME: The old copy book adage used to be "Competition is the life of trade." How are you going to live under a monopoly?



MR. BEATTY: You can give service to the customers of your railway under one form as well as under the other. The proof is in our large non-competitive territory in Canada, none of which is suffering.

COMMISSIONER LOREE: I had more in mind the importance of developing the state of the art.

MR. BEATTY: For the sake of maintaining efficiency we must at least keep abreast of your progress in the United States.

COMMISSIONER LOREE: There would be no competition.

MR. BEATTY: Except the competition we have with your northern lines in the west.

COMMISSIONER LOREE: That is limited.

MR. BEATTY: Yes, to the Pacific slope.

COMMISSIONER LOREE: If you look for any source of life in the monopoly I do not see where you got it.

MR. BEATTY: Take the mechanical man at the head of the mechanical department of this consolidated system; should he be any less alert than two men doing the same work?

COMMISSIONER LOREE: I have seen many instances of it.

MR. BEATTY: Do you see any reason why it should be so?

COMMISSIONER LOREE: I think the old adage, Competition is the life of trade, still applies. Competition kindles a spirit of emulation in a man, and he gets the reward that comes to him for superior activities.

MR. BEATTY: That is perfectly true; but no doubt you have in mind companies which are virtual monopolies but which are not behind in their technical resources.





As an instance take the A.T. & T.

COMMISSIONER LOREE: They have a great many competitors.

MR. BEATTY: But no competition in their own field.

COMMISSIONER LOREE: Yes, in certain parts of the United States.

MR. BEATTY: But no one covers the same field as they do. They have competition with ourselves, with our wire services naturally, but taking the A. T. & T. as an example of a monopoly, they have kept up a remarkable pace in their progress.

COMMISSIONER LOREE: Yes, I think as a rule they have a very good set of men in charge. Eventually they may have a man who may go to sleep. Nothing more significant has happened in the banking business in New York than the failure of the grandson. He went into society, horse racing and one thing and another and left banking go to the devil. That is the trouble I see in a monopoly; you have got no incentive, no spur.

MR. BEATTY: You have the spur of achievement, you have the spur to make proper returns to your owners, you have the spur of public criticism if you fail; you have also the spur of what I have been trying to describe as a very high grade board of direction, which must feel their responsibility to the institution and to the country.

COMMISSIONER LOREE: But against all those things you erect barriers. At one time we had in Washington a stately Marshal. Someone said to him, "Marshal, I don't see how you keep good humoured in view of all the attacks that are constantly made on you in the press." "Well," he said,



"I have a very good secretary; when I go to the office in the morning there are clippings on top of my correspondence, but he never puts anything there but clippings that praise me."

MR. BEATTY: I do not know how it would feel to be treated like that.

COMMISSIONER LOREE: I see it in so many instances, Mr. Beatty. Take our locomotive position; we had three companies who agreed on prices; they had no interest whatever in developing the state of the art, they wanted to sell standardized products; now they are in a hopeless state approaching bankruptcy.

MR. BEATTY: There has been sterile competition, yes, in many instances, I admit that, due to price control and things of that kind.

SIR JOSEPH FLAVELLE: You see, Mr. Beatty, most of the monopolies we have been discussing may be broken almost at any time by a competitor, certainly over a course of years. The difficulty that one sees in this proposal of yours is that from Halifax to Vancouver the railway, a vital part of the machinery of every community, would be under one administrative body.

MR. BEATTY: Do not forget, Sir Joseph, that only one phase of transportation is involved.

SIR JOSEPH FLAVELLE: You mean there is also to be taken into account motor competition?

MR. BEATTY: And water.

SIR JOSEPH FLAVELLE: Over six months of the year.

MR. BEATTY: Except the Panama Canal competition from the east to the west, which prevails all the year round.



COMMISSIONER LOREE: One of the things we are charged with, Mr. Beatty, is road transport. We have asked the question repeatedly as we have gone across the country whether any of these bus lines were declaring dividends or were profitable, and as yet we have not had an affirmative answer.

MR. BEATTY: I am not surprised at that, sir.

COMMISSIONER LOREE: How can they be a competitive agency?

MR. BEATTY: They disappear and come up again, but so long as they are able to function at all, whether they are bankrupt or otherwise, the traffic results to us are the same.

COMMISSIONER LOREE: Is it not something like the interurban trolley, which was active for a few years and then dropped out?

MR. BEATTY: I do not think the motor bus is going to be a very serious thing with us. The truck is another problem. It will be possible to coordinate truck and rail services, but we have always considered that the first step in that direction was to find out under what conditions we are competing or coordinating. We do not know yet in this country because there is practically no regulation.

COMMISSIONER LOREE: Of course, it is a very serious question to every railroad. Our experience in the States is that only about 6 per cent of the buses are common carriers, 6 to 8 per cent contract carriers, and the others privately owned. So as public instruments of transportation they are without the regulation of the State; if they are going to be regulated at all it must be by the police power over the highway. As to the diversion of our passenger



business, of the loss of 23 per cent, 20 per cent went to the privately owned motor and only 3 per cent to the bus. There were killed on the highways of the United States last year 30,000 people; motor vehicles are killing about a hundred people a day. I should think that eventually police regulation would be the source of control there. We have been rather staggered as to cooperation between the motor truck and the railway by the experience of the English railways in their collection and delivery service; they lost last year \$6,000,000, and the year before \$6,200,000. So it does not seem to be an inviting field.

MR. BEATTY: No, not if the losses are in that proportion in this country. Of course, we do a truck service now in terminals as part of our collection and delivery service naturally. We have been doing that for years in different forms starting with the horse and waggon.

But the difficulty here, Mr. Loree, is not quite the same as in your own northern section; your southern territory is not at all similar. Our roads are blocked for four or five months of the year. More roads are being kept open every year in normal times, fewer probably under conditions such as prevail now; but we must maintain these services, branch line or otherwise, all the year round, while the cream of the business leaves us for certain periods and goes to the truck.

I do not think it is an insolvable problem, but I do not believe the railways of Canada are in a very good position to meet it, or even to determine a policy in respect to it, until they know the conditions under which their competitors are going to operate. We have had examples





where a truck line was established in local service against our rail service. They cut our charges in two and we lost the business. We cut our charges and got the business back. Another competitor came in against the truck line, cut his charges 50 per cent and got the business from the two of us. You say that is not permanent competition. Granted, but so long as the truck lines operate, and whether the competition is cut-throat or not, we lose the business.

COMMISSIONER LOREE: True enough.

SIR JOSEPH FLAVELLE: Mr. Beatty, yesterday I asked my secretary to give me a list of some responsible people in the city who were in the truck business. She produced the telephone directory containing three pages of persons engaged in motor truck service, running east as far as Montreal, west as far as Windsor, and north as far as Owen Sound. I was amazed, I had no idea there were so many engaged in the business.

MR. BEATTY: I do not know that those men are licensed even.

SIR JOSEPH FLAVELLE: A manufacturer whom you know very well, a strong admirer of your corporation and very loyal to it, told me the other day: I have a good deal of difficulty withholding my business from motor trucks when they can take the product out of my plant and deliver it thirty, forty, fifty, sixty or seventy miles on the job complete in from an hour to three hours. They will do that as far as Niagara Falls. I am having increasing difficulty in retaining my loyalty to my railroad friends because this service is so convenient and so complete for me. Lord Ashfield has told us at odd times that the service at home has been very prosperous, but of course they have many big



cities and towns within a comparatively limited area. An important wholesaler in one of the western cities -- he would not let me introduce his name to the Commission -- intimated that notwithstanding the imperfect character of the roads he was delivering most of his product through the Province of Alberta by motor truck. Among the advantages he cited was quickness of delivery.

MR. BEATTY: Door to door delivery.

SIR JOSEPH FLAVELLE: He said that some of the branch lines were running only three days a week for the sake of economy. Some people in Toronto have been running trucks for a dozen years. For instance, you will see the big closed vans of a man named "Hill the Mover," at Niagara Falls, Belleville, Lindsay, Peterboro, But I gather from what you say that on the passenger side you are not so anxious, it is on the truck side.

MR. BEATTY: Yes. We must admit there is an area within which the truck has a distinct advantage over the railway, and will probably never lose it.

SIR JOSEPH FLAVELLE: In some of the testimony given to us it has been indicated that where the railway met the rate they were able to get some of the business back. But has this L.c.l. carload rate business been profitable for the railways?

MR. BEATTY: Yes, dependent on the distance of course. Where we would feel the truck competition most severely would be on very limited mileage, for the bulk of our expenses would be terminal and the rate would not be very remunerative. We may have to make up our minds that we shall lose that business. But the trucks have been extending



their area very materially, and it is that business we must hold.

SIR JOSEPH FLAVELLE: Take an area covering Belleville, Peterboro, Lindsay, Owen Sound, Guelph, Niagara Falls, and swinging over as far west as London; that would hurt?

MR. BEATTY: Yes.

SIR JOSEPH FLAVELLE: That is happening every day, largely, I suppose, because of these public services that are included in the telephone directory.

MR. BEATTY: It is very difficult for us to gauge our loss in a time when traffic is subnormal. We do not know how much of the loss is due to depression and how much to restriction.

COMMISSIONER LOREE: On the Kansas City Southern we have taken two local trains and put on each of them a freight car and crew to handle the l. c. l. business. We are getting a great deal of it back.

MR. BEATTY: We have a couple of services of that kind in the west.

MR. COLEMAN: Yes.

SIR JOSEPH FLAVELLE: How do you deliver it to the householder?

COMMISSIONER LOREE: At the station; he comes for it; it is a short haul.

SIR JOSEPH FLAVELLE: You supply your roadbed to carry your traffic. Is there any scientific or moderately scientific basis to arrive at what a truck ought to pay for the use of the highway? I think you have said, sir, that they charge as much as £25.

LORD ASHFIELD: £125 a year.





SIR JOSEPH FLAVELLE: That would be about \$600 with us.

THE CHAIRMAN: In some of the States the license fee is \$1,200.

COMMISSIONER WEBSTER: \$2,500 was the highest fee on that list.

THE CHAIRMAN: Mr. Loree says that is entirely a matter of taxation.

COMMISSIONER LEMAN: In some of the provinces it is as high as \$600 or \$700.

SIR JOSEPH FLAVELLE: Do they continue operating?

COMMISSIONER LEMAN: Oh yes.

MR. BEATTY: I think the brief that the Railway Association filed with you contains the last statistics on the subject.

COMMISSIONER LEMAN: Mr. Beatty, what would be the position of the lessor if certain conditions of the lease were not lived up to?

MR. BEATTY: I presume the lease would provide adequate protection for that contingency. It is not an unusual provision.

THE CHAIRMAN: I suppose you are using the word lease as a very broad term. It might include any sort of arrangement not involving an out and out transfer of ownership.

MR. BEATTY: We suggest a lease of the properties of one company to the other.

SIR JOSEPH FLAVELLE: But in another sense it is a continuous arrangement.

MR. BEATTY: Oh, naturally.

SIR JOSEPH FLAVELLE: Because you immediately



commence to recast your own property working in sympathy with the other property so as to get the best results.

MR. BEATTY: You recast both of them so as to get the full benefits of the unification.

SIR JOSEPH FLAVELLE: Yes.

THE CHAIRMAN: Mr. Beatty, I can't help thinking some of these matters will require elaboration before we can really settle down to consider them. Of course, one of the obviously vital points about the whole situation is the financial. It may be that some one form of arrangement is about the only form that would appear to afford any adequate relief, but in order to consider that we would require to be able to form some idea of the measure of the relief that you could look for.

MR. BEATTY: In other words, you think the measure of relief would depend somewhat on the terms?

THE CHAIRMAN: It must necessarily, don't you think so?

MR. BEATTY: Undoubtedly. They can be worked out, Mr. Chairman, but of course only after we get this estimate of what the maximum economies we can expect would be.

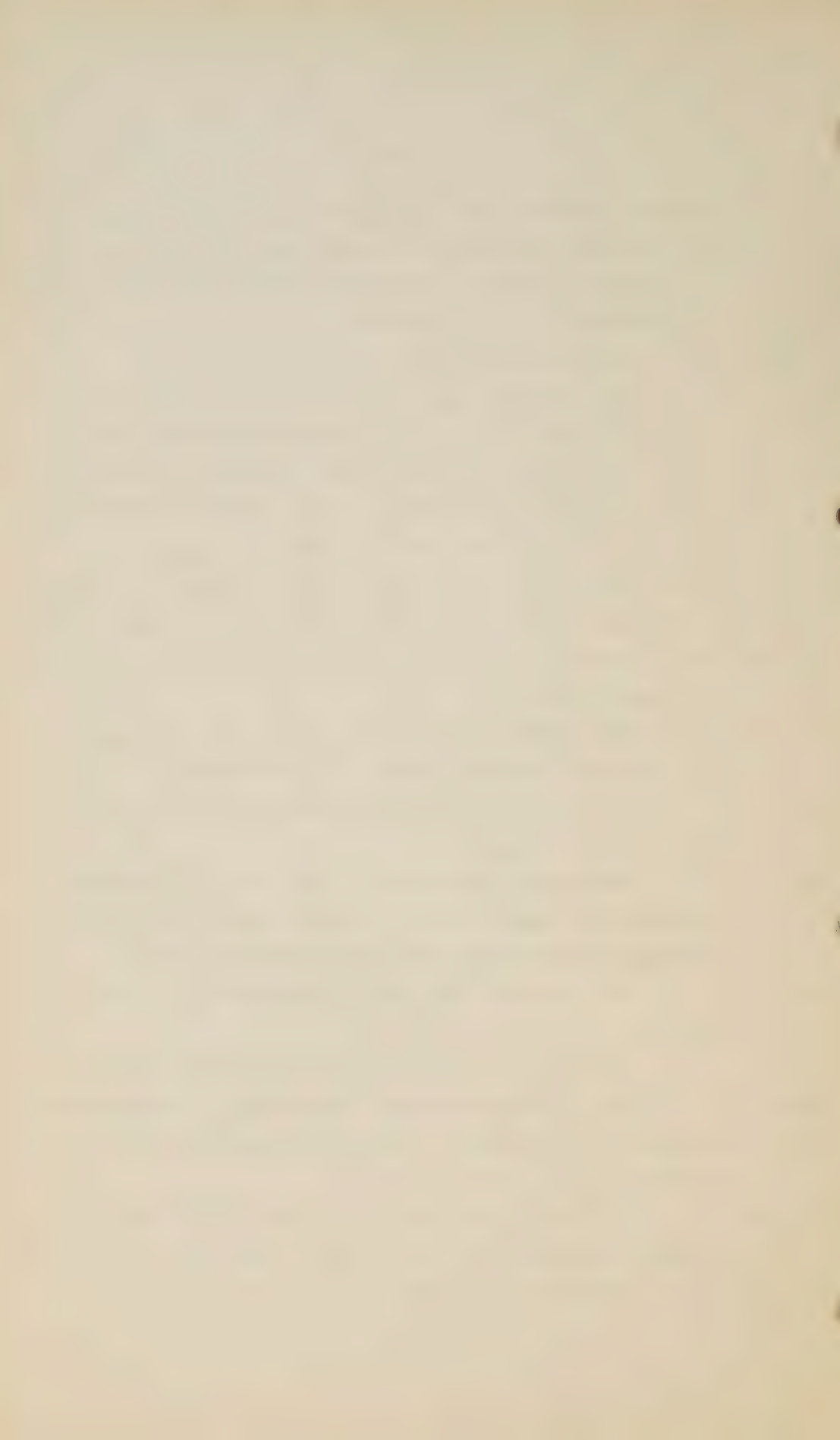
THE CHAIRMAN: How soon do you think you could have that?

MR. LLOYD: A week or ten days, probably a week.

THE CHAIRMAN: Then the other estimate of reasonably anticipatable economies arising from cooperation without amalgamation?

MR. BEATTY: You mean the elaboration and checking of these statements? That can be done fairly quickly.

THE CHAIRMAN: I understood the two companies were



working together on it.

MR. BEATTY: That is a question I was just going to ask you, sir. These are our figures up to date. Of course, they may not be willing to sit in and check them; I should think they would be.

SIR JOSEPH FLAVELLE: Of course, the financial requirements of the Dominion do not come within the scope of this Commission, and yet that question is involved in the railway question. The gravity of the whole financial situation is not the railways alone, although it is a very serious part of it. This year we will not be within \$175,000,000 of meeting our budget, including \$60,000,000 for the railways.

MR. BEATTY: If that is the aggregate. I do not know what the aggregate will be.

SIR JOSEPH FLAVELLE: The railway situation is one of the problems. There is no minimizing its gravity, but it is not the only charge. When we are discussing the possibility of a very extreme measure for the purpose of saving the country, we must bear in mind that the country has to be saved by something more than the railways.

MR. BEATTY: That is true. Of course, it is the only question referred to you.

SIR JOSEPH FLAVELLE: Incidentally, however, the whole gravity of our situation financially is not a railway one; that is the point I want to make.

THE CHAIRMAN: Certainly not.

COMMISSIONER LOREE: Measured in terms of the value of the Canadian Pacific, have you some approximate estimate of the value of the Canadian National; is it 80 per cent, 100 per cent, or 120 per cent?



MR. BEATTY: No, I have not, Mr. Loree.

COMMISSIONER LOREE: Of course, when you work out the terms of your lease it would be derived from that.

MR. BEATTY: Yes, that will be a factor in it, undoubtedly.

THE CHAIRMAN: I suppose a valuation of these properties would be a work not to be lightly entered upon. How long have you been at work on your valuation of the railways of the United States?

COMMISSIONER LOREE: I think it started about 1910. We have spent about \$150,000,000 on it. We have got no where yet -- we have not even got the principle of valuation started.

MR. BEATTY: I am afraid that anything respecting capitalization is probably out of the question.

THE CHAIRMAN: We should like, Mr. Beatty, to have a chance of looking over your memorandum more closely. Probably it will require considerable elaboration.

MR. BEATTY: Yes.

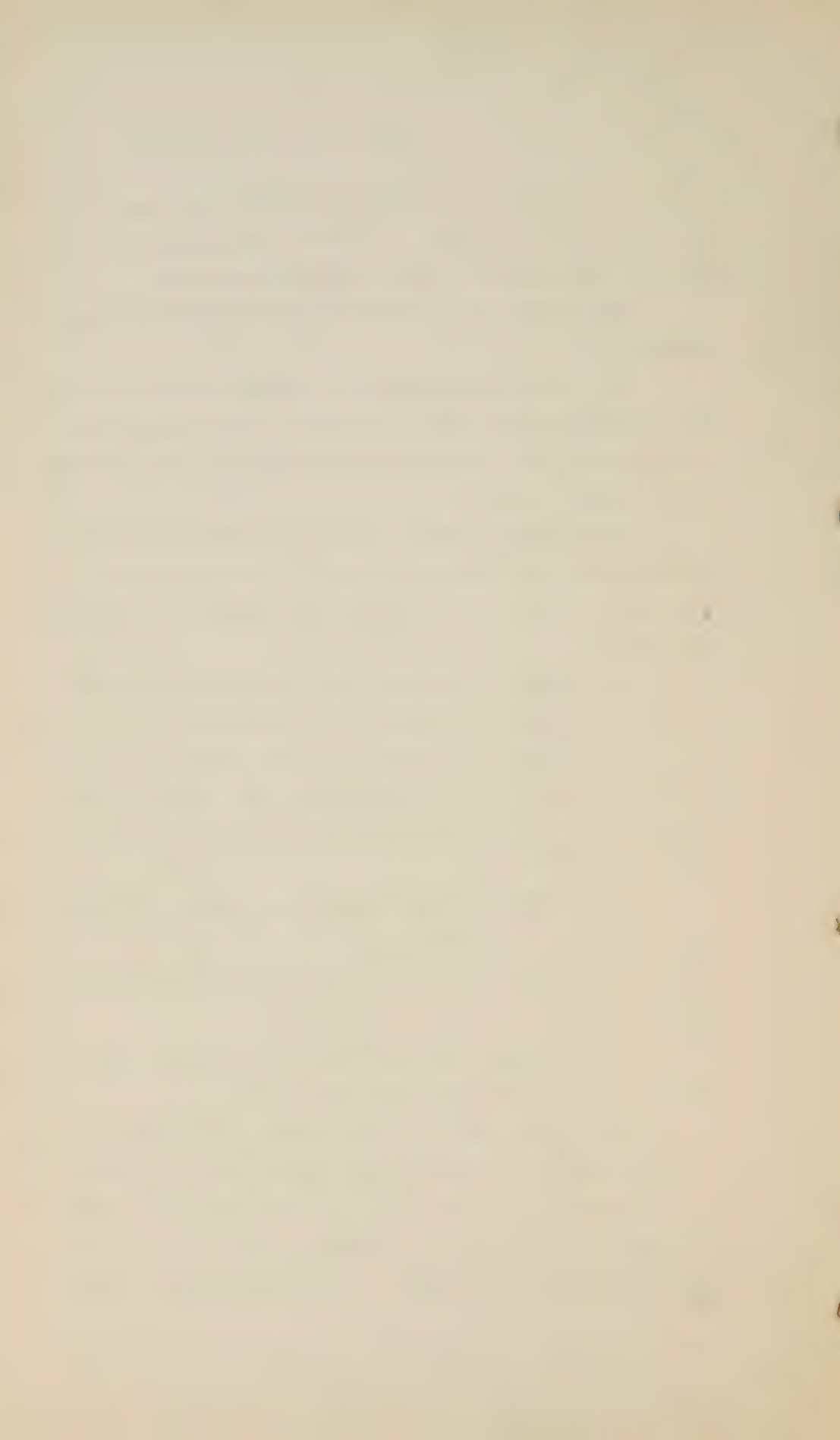
THE CHAIRMAN: We may require many further discussions with regard to the situation.

MR. BEATTY : Oh yes, the situation is very complicated and difficult.

THE CHAIRMAN: There is nothing further, Mr. Beatty, that you desire to discuss with us?

MR. BEATTY: Nothing at this stage. I rather expected that the Commission, after hearing these views in outline, might indicate in what respects they would like the views elaborated. Of course, if it is desired to deal with the two factors that are not dealt with in detail there, the





possible terms of this arrangement and the financial results --

THE CHAIRMAN: I have no doubt that we should like to have them elaborated, but there may be other matters as well.

MR. BEATTY: All right, sir. We have, I think, completed our work in the preparation of the answers to the questionnaire which the Commission submitted. Those statements can be filed by Mr. Lloyd.

SIR JOSEPH FLAVELLE: Mr. Beatty, you take no cognizance of the interest on your hotel investments in the operating accounts of the railways; you absorb that in your fixed charges, I suppose?

MR. BEATTY: Operating expenses of the hotels?

SIR JOSEPH FLAVELLE: Yes. You do not count interest on the investment?

MR. BEATTY: No sir.

SIR JOSEPH FLAVELLE: That is just absorbed in your fixed charges?

MR. BEATTY: Yes.

SIR JOSEPH FLAVELLE: You create these hotels either out of surplus or out of stocks?

MR. BEATTY: Yes.

SIR JOSEPH FLAVELLE: Or out of debentures?

MR. BEATTY: No, not out of debentures.

SIR JOSEPH FLAVELLE: And having created them, you make no charge against them for the interest on the capital?

MR. BEATTY: No.

SIR JOSEPH FLAVELLE: Whatever revenue there is to the good you pass over to the credit of the general account?



MR. BEATTY: Yes.

SIR JOSEPH FLAVELLIE: Do you do the same with maintenance? You had a heroic policy for the maintenance of your equipment, which you have changed under the present adverse circumstances. But what about your hotel maintenance?

MR. BEATTY: It has all been charged against operations.

SIR JOSEPH FLAVELLIE: What about obsolescence, furniture renewals, and so on?

MR. BEATTY: They are all charged to operating expenses; they are all renewals paid out of earnings.

SIR JOSEPH FLAVELLIE: When you show those earnings you show them after the absorption of those items?

MR. BEATTY: Oh yes.

THE CHAIRMAN: Thank you, Mr. Beatty.

At 5.15 p.m. the Commission adjourned.



ROYAL COMMISSION ON RAILWAYS AND TRANSPORTATION

The Royal Commission appointed to inquire into the whole problem of transportation in Canada, particularly in relation to railways, shipping and communication facilities therein, having regard to present conditions and the probable future developments of the country, met at the Parliament Buildings, Ottawa, on Wednesday, January 6, 1932.

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PRESENT:

RIGHT HON. LYMAN POORE DUFF, P.C., Chairman

RIGHT HON. LORD ASHFIELD )

SIR JOSEPH W. FLAVELLE, Bart., )

BEAUDRY LEMAN, Esq. )

LEONOR FRESNEL LOREE, Esq. )

WALTER CHARLES MURRAY, Esq., )

JOHN CLARENCE WEBSTER, Esq. )

Commissioners

Arthur Moxon, Esq., K.C.

Secretary

George W. Yates, Esq.

Assistant Secretary

Official of Canadian Pacific Railway Company

J. N. K. Macalister, Chief Commissioner,  
Department of Immigration and  
Colonization.

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Parliament Buildings, Ottawa,

Wednesday, January 6, 1932

Afternoon Session

The Commission met at 2.30 p. m.

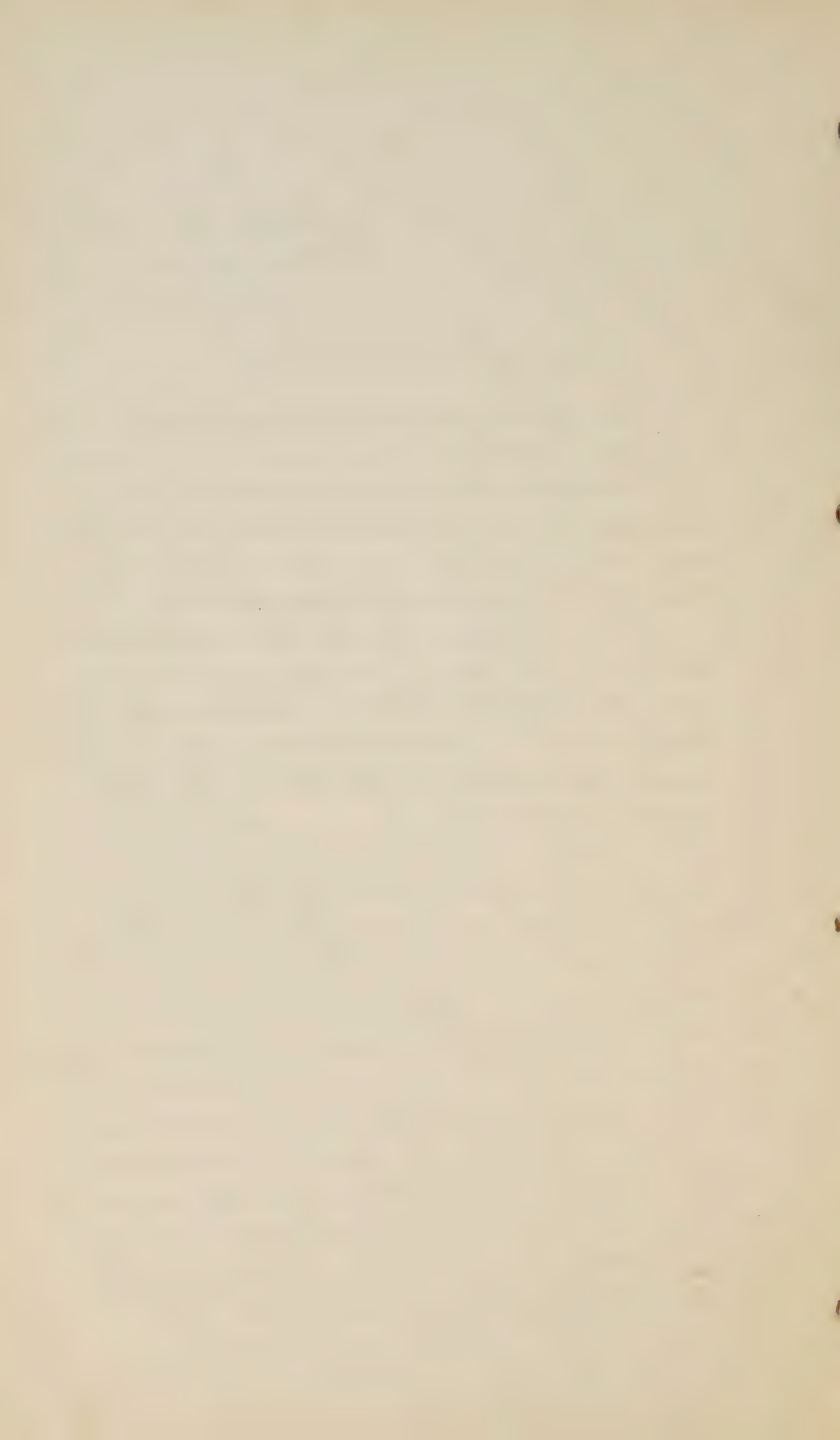
THE CHAIRMAN: Sir Joseph, Mr. Macalister is present.

SIR JOSEPH FLAVELLE: Mr. Chairman, when I suggested that Mr. Macalister and Dr. Black might be present at some time during our sessions, I had in mind the Minister being here. Later I found that was not possible, but Mr. Macalister in the meantime had started for Ottawa.

I have no thought, Mr. Macalister of questioning the policy of the government of today in relation to colonization, but I desire the views of yourself and others on the subject in view of the fact that sooner or later the tonnage of these railways depends on the volume of our farm and other products.

Based on his early experience with the Great Northern and the Northern Pacific the late J. J. Hill expressed the opinion that the settler was worth a thousand dollars a year to the railway. Mr. Dennis told me he was impressed by that statement to the extent of making inquiries and he found that it was not as far wrong as might have been thought. He worked it out at about \$680 a year.

Under existing circumstances, Mr. Macalister, with the railways as well as the department not encouraging colonization from without, are you doing anything along the lines indicated by the Premier of Saskatchewan when we were in Regina last month? He said his government were moving idle men with farm experience away from the towns and



assisting them to go on the land. Have you been in touch with that movement?

MR. MACALISTER( Chief Commissioner, Department of Immigration and Colonization, Canadian Pacific Railway): Yes, we have been very active in it during the past eighteen months.

SIR JOSEPH FLAVELLE: On behalf of the Dominion government?

MR. MACALISTER: The Dominion Government, the Colonization Department of the Canadian National Railways and our own.

SIR JOSEPH FLAVELLE: That is, taking men who have had some farm experience out of the towns and putting them on the land?

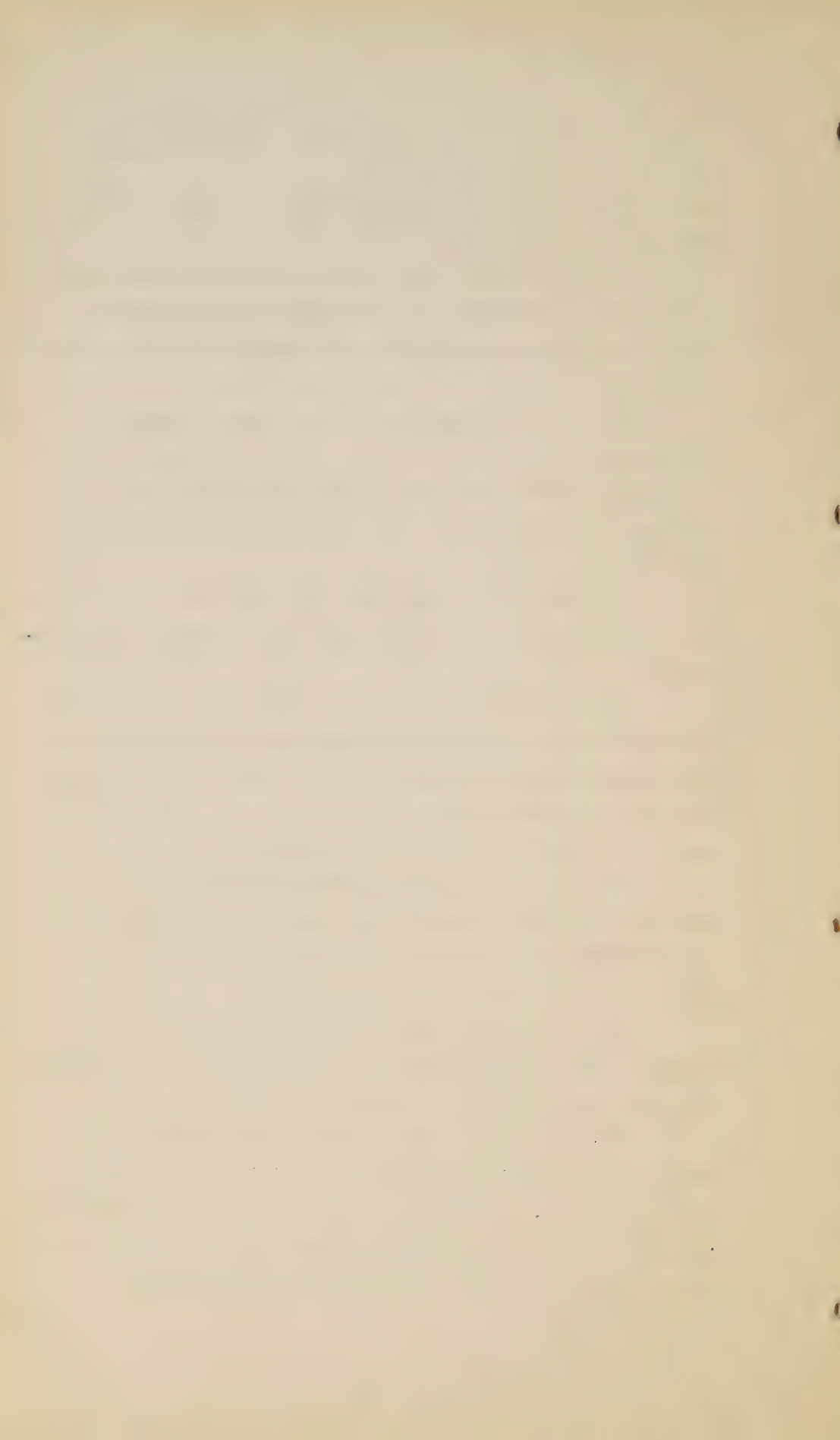
MR. MACALISTER: They had to have more or less money, because they have not had any assistance in getting on the land, other than finding for them farms that were available on terms they could meet.

SIR JOSEPH FLAVELLE: Is that recently?

MR. MACALISTER: That has been carried on actively for the past eighteen months as a cooperative arrangement of the three interests, but it is only a continuation of what we were all doing before.

SIR JOSEPH FLAVELLE: Of course, before you were bringing them in from outside the country. This is something you are doing within the country, is it not?

MR. MACALISTER: That is quite true. What we are doing now is cleaning up available families that formerly were brought in. That is, at all times when immigration has been active a very considerable proportion of the immigrant families are not able to go into occupation of farms for



themselves and operate them on arrival, either from lack of capital or lack of experience. So there is always a reservoir of families created who are in farm employment or in the cities. From that reservoir, particularly the reservoir of families in farm employment, we have been constantly drawing for permanent settlement, that is, after they have had one, two or three years experience under Canadian conditions; or if they lacked entirely farm experience, after they had acquired sufficient experience to farm on their own account. I am sorry to say our reservoir is almost dry; that is, available families are pretty well settled -- those that have sufficient means to settle.

SIR JOSEPH FLAVELLE: Do you take single men or only families?

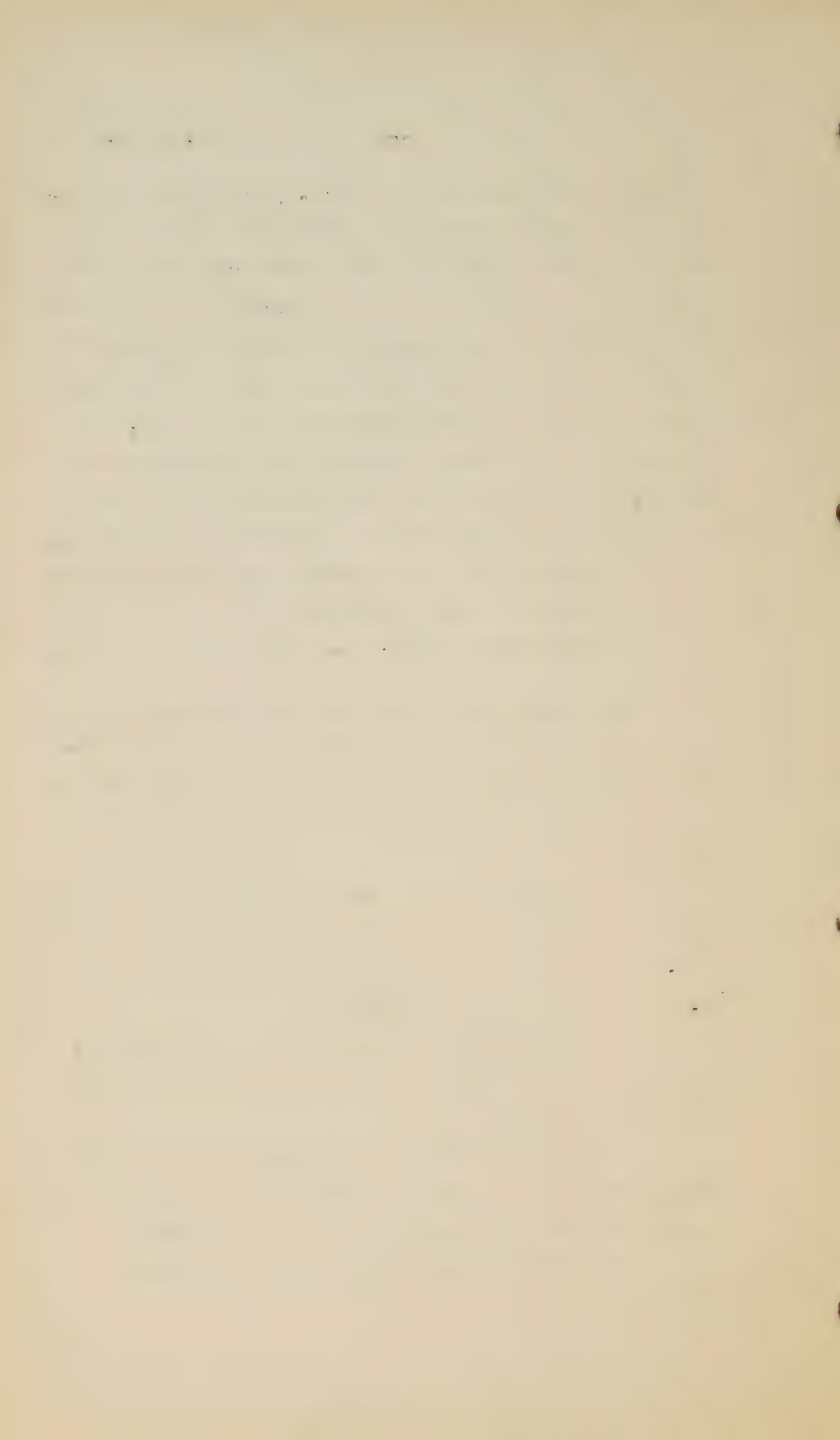
MR. MACALISTER: We take both, but principally families. On the other hand, there are many men in Canada without their families who frequently go into occupation of farms, bringing their families forward a year or two years later.

SIR JOSEPH FLAVELLE: From your experience could you say what percentage of those brought out remain on the land and do well enough either to subsist or to add to their means? Is there a heavy leakage?

MR. MACALISTER: Are you referring to the families that are placed in permanent occupation of farms, or temporarily placed there?

SIR JOSEPH FLAVELLE: I am thinking of the colonization work you have carried on with your railway enterprise in the years gone by, I am not thinking of the moment.

MR. MACALISTER: All those families that have





homesteaded or have purchased land or have rented land, of them there is a very small leakage from the farm; but of those individuals or families who are placed in farm employment -- well, nobody knows exactly, but in my opinion there is a decided leakage to the cities during periods of industrial activity because they are able to earn much larger wages there than in the country.

SIR JOSEPH FLAVELLE: You refer there to the hired help, not to the homesteader?

MR. MACALISTER: No, the hired help.

SIR JOSEPH FLAVELLE: I suppose it is still true in the west that not very much trouble has been taken to provide very comfortable homes for hired help?

MR. MACALISTER: No, they lack that badly.

SIR JOSEPH FLAVELLE: They have very often had a share in the accommodation of the house.

MR. MACALISTER: Yes, that has been one of the principal difficulties in providing for whole families in farm employment in the west. We tried to overcome it to some extent a few years ago through agreement between the British Government and the Canadian Pacific for the construction of numerous cottages on existing farms to provide for British families in farm employment.

SIR JOSEPH FLAVELLE: Was any considerable amount of that done?

MR. MACALISTER: Yes, we erected 129 or 130 cottages of that kind.

SIR JOSEPH FLAVELLE: What was your experience?

MR. MACALISTER: Very good until the present conditions came on. It is still working very satisfactorily





in Ontario and in a portion of Quebec, but in the west the difficulty of course is that the farmers cannot afford now to employ families. With regard to your question a moment ago concerning the value of a farm family to the railway, the figures to which you refer were obtained by the late Mr. William Pearce after a very exhaustive investigation, but pertaining only to the three prairie provinces. His figure was \$746.33 per farm family gross revenue to the railway per annum.

SIR JOSEPH FLAVELLE: So you are deeply interested in the increase of the farm family.

MR. MACALISTER: Very much so.

SIR JOSEPH FLAVELLE: Have you any general observations which it would be proper for you to make having regard to the government policy? I am not thinking at all of any comments in relation to the present policy of endeavouring to take care of the people we have rather than to bring in anyone from outside. Have you any general observations you would like to make?

MR. MACALISTER: Of course, I am intensely interested in the further agricultural development of available lands within reasonable distance of existing lines of railway. At the same time the figure I have just referred to of the value per farm family was arrived at by Mr. Pearce in 1922.

COMMISSIONER LEMAN: Pardon me, but who is Mr. Pearce?

MR. MACALISTER: Mr. William Pearce was a very old timer in the west. He went out there in 1872 or 1873 and was an engineer in the government service for many years, and eventually he became connected with the Canadian Pacific at the time our irrigation activities commenced in the west.



He was a statistician of considerable note and was recognized, I think, as reliable. At that time he determined that there were 34,000,000 acres of arable land within fifteen miles of existing lines of railway -- lines existing in 1922.

SIR JOSEPH FLAVELLE: Of which how many were occupied?

MR. MACALISTER: That was unoccupied land.

SIR JOSEPH FLAVELLE: About how much was occupied?

MR. MACALISTER: I have not got the figures. That information could be estimated in this way. There are approximately 250,000 farms in the three prairie provinces. A farm will average probably 320 acres.

THE CHAIRMAN: A half section.

MR. MACALISTER: Yes. I am not quoting statistics, but that is about what it will run. 34,000,000 acres of land will provide for approximately 106,000 half section farms. So on that basis there must be two and a half times 34,000,000 acres of land occupied. I am doing mental arithmetic now.

SIR JOSEPH FLAVELLE: Say 85,000,000 acres of land.

MR. MACALISTER: Something about that.

SIR JOSEPH FLAVELLE: Does that include the Peace River section?

MR. MACALISTER: I don't think it did include the Peace River section.

SIR JOSEPH FLAVELLE: Not in the uncultivated land?

MR. MACALISTER: No.

COMMISSIONER LEMAN: Not in 1922?

MR. MACALISTER: No.

THE CHAIRMAN: A great part of the Peace River section is in British Columbia.



MR. MACALISTER: It certainly would not include that. It was not talked of at that time.

COMMISSIONER LOREE: One thing struck me very much coming across the prairies. If you go into Baden or one of the mountain districts of south Germany you find house and barn under the same roof, so the man going from one to the other is not exposed to the elements. The same thing is true of eastern France. In New England the house and barn were built separate, but they were usually connected by a woodshed, and the wood was so piled as to make a passageway, so that the man was protected in going from one building to the other. The prairie climate is very bleak and subject to high winds, and the location of the toilet and of the barn in reference to the house seems to me to put a hardship on the family that they might easily avoid if the buildings were rearranged.

MR. MACALISTER: Yes, I can see it would be very convenient in many ways.

COMMISSIONER MURRAY: The Mennonites, Mr. Loree, brought from Europe the same practice of having barn and house connected or adjoining; but the children are breaking away from tradition even to that extent.

COMMISSIONER LOREE: I think the New England practice had a substantial advantage over the German in making two separate buildings connected with a long woodshed, which also made a passageway between.

MR. MACALISTER: Might I conclude the remarks I was making, Sir Joseph, in connection with the unoccupied lands?

THE CHAIRMAN: Very well.





MR. MACALISTER: If there is available land for 106,000 farms, those farms occupied, on the basis of the figure I previously quoted of \$746.33 per farm family in gross revenue, would represent approximately \$80,000,000 additional revenue to the railways from the three prairie provinces. In addition to that we know that there are very considerable areas in the west -- I am speaking entirely of the west now, the three prairie provinces -- that must be recolonized, farms that are unoccupied, possibly rented to the adjoining farmer and improperly farmed because he is trying to handle more land than he can properly handle, areas farmed as one unit today which are not properly farmed because the man in control is not financially able to farm the place to get the best results, and farmers who have not done well and will pull out. There is always a shift from the farm. People estimate it at varying percentages, but as high as 20 per cent constant, that is, 20 per cent of the farmers who do not make good and have sooner or later to get off and go into some other occupation. I think probably that figure is too high, I do not think it is 20 per cent, but I do believe it is over 10 per cent. For instance, there is one block of 455 farms in Western Manitoba and Eastern Saskatchewan that I happen to be familiar with which are now under farm management. They are under farm management because the farm owners had gotten into financial difficulties. I might say that those farms are handled by a chief farm manager with six assistants. The chief farm manager says that 10 per cent of the farms need new families this coming spring, and that before the 455 farms are properly equipped to succeed there must be still an additional 10 per cent replacements of families.



This gives you an index of conditions. This is after a very careful survey of each individual farm. So we constantly need a stream of new families to keep our farms in those provinces producing at capacity. That is also true in other portions of the Dominion. In Nova Scotia, for instance, it is estimated by reliable authorities that they require 3,000 farm families today to properly --

SIR JOSEPH FLAVELLE: Take up the slack.

MR. MACALISTER: Yes.

COMMISSIONER LOREE: Is that because of 20 per cent of what we call unemployable in industrial activities?

MR. MACALISTER: No. In Nova Scotia it is occasioned by the fact that during years past a very large proportion of the young people went to the New England States into industrial employment, and the farm man and his wife have grown old on the place. I have been on many farms in Nova Scotia where the man and his wife were keeping a horse and a cow and a few chickens and cut the hay from a five-acre meadow; they did not attempt to farm the rest of the place. Those farms should be occupied by families who will place them in cultivation.

COMMISSIONER LOREE: Some figures I had collected some years ago of the time between the beginning of the farmers work early in the morning and its conclusion in the late evening indicated a spread of his labour of something more than 6,000 hours a year. If industry is organized in the future on the basis of a five day week at six hours a day, it would be 1,750 hours. Is that going to make such a dislocation as to destroy civilization? Because we rest our



civilization upon agriculture. Is agriculture going to be maintained if the man in industry has something like four times the advantage in time over the farmer.

MR. MACALISTER: Of course, Mr. Loree, there is no doubt that those conditions have influenced a lot of people from the farm to the city.

COMMISSIONER LOREE: The census taken in the United States in 1930 indicated that from 1920 to 1930 the farm population had fallen off 4,235,000, I think it was. Is that probably one of the reasons for it, that industry is so much better rewarded and so much more attractive?

MR. MACALISTER: I think so, yes.

COMMISSIONER LOREE: What do you see as the end of that process, and how long is it going to be before we begin to be in distress?

MR. MACALISTER: I do not know, Today we do get many immigrant families in Canada whose only desire is to own a farm, they were born with that desire, and if they can acquire a farm at a price within their reach, it is possible that that is the only thought and ambition of the father and mother of that family; when they get the farm they are quite satisfied. How many generations that will last I do not know.

COMMISSIONER LOREE: In the States the farming industry is being divided into two groups. We have what you might call industrial farming, in which the plowing is done by motor tractors and the harvesting by the combine, and so on. Then we have farming which is pursued as a mode of life; a man practically raises on the farm all he wants -- his eggs, his chickens, his hogs, his milk, and all the rest





of it. Do you suppose that people will content themselves to any extent with farming as a mode of life, or will they want to farm as an industry?

MR. MACALISTER: Of course, I can only express an opinion by saying that it is possible now to get families from the other side who want to farm as a mode of life, as you express it, and I am satisfied that families of that type will continue of that mind until the end. But whether their children will is a question. Their children will be educated in our schools and they will come in contact with people of other ideals.

COMMISSIONER LORÉE: I remember stopping at a house near a line of railway. It was occupied by Italians and they had a little boy about twelve years old. I said to him, "Well, son, are you going back to Italy when you grow up?" The youngster replied, "Hell! no, I wouldn't go back to a country where they are earning ten cents a day." Now, can we go on with that process taking place and keep any family on the farm for two or three generations, or will they all leave the farm and will farming be carried on by means of a few industrial farms? This is a question that very much concerns me as to the future of the race, and I do not see that it is very much discussed.

THE CHAIRMAN: In Saskatchewan they have what is called sustenance farming. How long is that going on?

MR. MACALISTER: I think you gentlemen all know that our native-born Canadians will not adopt sustenance farming and be satisfied with it. The migration we can get from the United States is not of a type that will be satisfied with sustenance farming unless the present conditions in industry





are to continue, and then they would have to be satisfied. But we have lots of families in western Canada farming today who are quite satisfied with sustenance farming.

THE CHAIRMAN: There are plenty of them up the Gatineau.

MR. MACALISTER: The second generation of that particular type of family I have in mind have probably selected one of their children and have sent him off to school to give him an education, but the rest of the children are on the farm. What will happen in the third generation I do not know.

SIR JOSEPH FLAVELLE: Mr. Macalister, you have an important percentage who have done well as farmers. There is a great body of people throughout the west who have done sufficiently well to have a comfortable home and give their children a reasonably good education, and as well they have a more or less useful deposit in the nearby bank. Of course, sometimes you have a very real misfortune like the one in southern Saskatchewan, and you have misfits, but you have many people in the west who have done well.

MR. MACALISTER: Remarkably well, thousands of them.

SIR JOSEPH FLAVELLE: Yes. Sustenance farming is partly a state of mind which keeps a man from making anything but a sustenance. We have popularized the idea that those who work on the land are very badly off. It is not true if they attend to their job.

MR. MACALISTER: Of course, there is another thing that should be taken into consideration, it seems to me, in that connection that quite possibly with improved conditions now there will be a very considerable percentage -- again speaking of the west particularly -- of our farmers who will



be quite satisfied with a comfortable living on the farm, who during the past period of occupancy of the farm in the west have had ample ambition to make a lot of money, and consequently have gone badly in debt and are in trouble today; they are going through such grief that when conditions return enabling them to make a reasonably fair living on the farm they will be quite satisfied to do so and live comfortably.

COMMISSIONER LOREE: We are faced with a very real problem I think. When I start my kitchen garden in the spring I look forward to the activity being largely a weeding process. Now, apparently in the human organization we have no provision for weeding at all. Rather we are encouraging the breeding of weeds and we are struggling with a good many difficulties. I mention this question of the arrangement of farm buildings as something which it seems to me might make farming more endurable, if not more attractive. I think the farm population is subject to hardships which could be very easily avoided, as is evidenced by the experience of people in other countries. I wonder whether experimentation could be made along that line to see how it would work out.

MR. MACALISTER: Mr. Loree, the average farm in the west is of comparatively recent development, that is, the farmer has not been there very long and there is a great deal of difficulty in trying to get him to spend much time in making his home surroundings comfortable and in beautifying the farm. For instance, trees have been available for any farmer that wanted them for years and years past, but it is only in comparatively recent years that any large number of open prairie farms have begun to develop groves around their farm buildings. A settler going into occupation of



raw land is kept pretty busy during the first few years in developing his farm and bringing it to a state of production. I have talked to many of them about these things and they all say, "Yes, as soon as we get things going properly we will do what you suggest."

COMMISSIONER LOREE: When they put up their farm buildings in Iowa, Nebraska and Kansas they built them in the same manner as they are built in Alberta. They remain there to this day. The exposure is not quite so severe, but it is pretty bad at times.

COMMISSIONER WEBSTER: Has all your work come to an end in Europe and the United States?

MR. MACALISTER: In the United States we are continuing our activities and bringing to Canada farm families with capital.

COMMISSIONER WEBSTER: With means?

MR. MACALISTER: With means to purchase and develop farms. In Europe we are carrying on a very limited campaign to fill a programme asked for by New Brunswick and Nova Scotia.

COMMISSIONER WEBSTER: You are doing that for us, are you?

MR. MACALISTER: Yes. In the British Isles we are endeavouring to interest all the British families we can who have capital to come here and develop farms.

COMMISSIONER WEBSTER: Have you cut down your staff in Europe?

MR. MACALISTER: Very much.

COMMISSIONER WEBSTER: Is the government doing anything of that kind now?





MR. MACALISTER: No, the government is not recruiting. The government never has recruited to any considerable extent. Colonists recruited by various interests are almost invariably presented to the Canadian government officials, both civil and medical, for inspection and approval or rejection.

COMMISSIONER WEBSTER: Do you remember roughly the size of your budget for this department when you were in full blast before the depression?

MR. MACALISTER: 1929 was the last year of major activity -- this is for Canada, the United States and the British Isles, \$895,000.

SIR JOSEPH FLAVELLE: That is not assisted passages, that is just administration expenses?

MR. MACALISTER: Yes, administration expenses.

SIR JOSEPH FLAVELLE: What is your organization now for soliciting people to come here?

MR. MACALISTER: We maintain an organization in the United States, in the British Isles, on the continent, and a very considerable organization in Canada.

LORD ASHFIELD: What resulted from the expenditure of that \$895,000?

MR. MACALISTER: That resulted in bringing to Canada 31,709 immigrants.

COMMISSIONER LEMAN: From when to when?

MR. MACALISTER: In one year, 1929.

LORD ASHFIELD: That is a very good result.

COMMISSIONER LEMAN: Have you got any figures for the other years?

MR. MACALISTER: I have here the figures for 1928,



1929, 1930 and to the end of November 1931. 1928, 37,956; you have 1929; 1930, 21,419; 1931, to the end of November, 3,168.

COMMISSIONER WEBSTER: Are all those people of means?

MR. MACALISTER: No, that is colonists of all classes.

COMMISSIONER WEBSTER: Is the government allowing the entry of people without any means?

MR. MACALISTER: 1931 are all of means, yes; that is, they are either all with means or they are families joining the husband and father already in Canada and in a position to take care of them on arrival.

LORD ASHFIELD: Have you any idea what the Canadian National figures would be like?

MR. MACALISTER: I have an idea that they are approximately the same, not exactly of course.

LORD ASHFIELD: Making allowance for this number of settlers, the population in Canada is increasing very slowly, is it not?

MR. MACALISTER: Yes.

LORD ASHFIELD: Have you any sort of census figures for those years?

MR. MACALISTER: No, I have not.

SIR JOSEPH FLAVELLE: In the last ten years we have increased about 500,000.

COMMISSIONER LEMAN: A little over 9,600,000 to about 10, 250,000.

LORD ASHFIELD: There is no natural growth in population, the shrinkage is made up by immigration.

THE CHAIRMAN: We have been losing to the United States.



SIR JOSEPH FLAVELLE: The United States is a tremendous magnet.

COMMISSIONER LEMAN: The New England States have 1,600,000, or 1,700,000 French Canadians.

Coming back to the figure stated by Mr. Loree, 6,000 hours a year as the spread of labour on a New England farm, Mr. Macalister --

COMMISSIONER LORREE: For New York State as a matter of fact.

COMMISSIONER LEMAN: -- would you have any figure as to the number of hours spent by a Canadian farmer on a wheat farm?

MR. MACALISTER: No, I have not any figures.

COMMISSIONER LEMAN: I do not think it would be anywhere near that. You would know, Dr. Murray?

COMMISSIONER MURRAY: I might hazard a guess. The California emigration this year is very limited.

SIR JOSEPH FLAVELLE: What is the range of price of your available lands to a man coming in to buy?

MR. MACALISTER: I would say roughly that our lands which are fairly fit for settlement at the present time will range in price from \$8 to \$14 per acre. That is non-irrigable land, the ordinary farm land of the west.

COMMISSIONER LEMAN: And irrigated land?

MR. MACALISTER: About \$30 an acre.

SIR JOSEPH FLAVELLE: Are there irrigation charges on the \$30 land?

MR. MACALISTER: Yes, there is a maintenance charge which varies. On one block it varies three ways. In the Lethbridge district the maintenance charge is \$1 per acre, in the western section of our irrigation block near Calgary



it is 50 cents an acre, and in the block east from Bassano it is \$1.25 per acre.

SIR JOSEPH FLAVELLE: I suppose you have a good record this year as against the southern dry belt?

MR. MACALISTER: Yes, very good crops this year.

SIR JOSEPH FLAVELLE: You said the range of price was from \$8 to \$14 per acre. What about unbroken land, unoccupied land? I am not thinking of your own lands particularly, I am speaking broadly.

MR. MACALISTER: It is very hard to arrive at the value of farm lands at the present time; there is no market. The only way you could arrive at a value would be on the figure at which land is held, and that varies so very much that it is difficult to get at an intelligent figure at the present time.

COMMISSIONER LEMAN: On your irrigated lands have you any record of crop failures?

MR. MACALISTER: Not where water was intelligently used and applied. I would have to qualify that statement by also saying -- except in individual cases of small acreage where a small portion of one farm might have become water-logged through improper drainage and too much water.

COMMISSIONER LOREE: Do you assist the incoming farmer in any way?

MR. MACALISTER: Yes, in our irrigation blocks, for instance. There are no blanket terms of assistance that are available to everyone, each case being dealt with separately on its own merits in the judgment of the manager; but generally speaking if a farmer has sufficient equipment and





capital to cover his initial expenses, we loan him material to a value of \$1,000 for the erection of his buildings and fences, and we also sell him milking cows and sheep on a small cash payment, with the balance spread over a period of time.

COMMISSIONER LOREE: I once had occasion to look after Prince Hilkoef while he was in the United States. He was Russian Minister of Communications under the Czarist regime. Talking of their conditions he said that after the serfs were given their freedom certain portions of land in different locations were set aside for their use. The title did not pass to the individual peasant, but the use of the land, and at intervals of three or five years those allotments were remade. One of the troubles, he told me, was that the smart fellow always got the well-tilled land away from the fellow who was industrious. In some localities the increase in the population had been such that the land would no longer offer them good support, and the Russian government was systematically trying to move that population over into Siberia. The government authorities would allow groups to scout out the land and select locations, they would transport free such people as wanted to go, and they gave them one year's sustenance; after that it paid them to look after themselves. He thought at that time the work was being very well conducted and was relieving the home situation very effectively. That was a year or two before the war between Japan and Russia. I was wondering what assistance you gave your settlers.

MR. MACALISTER: On our so-called brush lands, that is the portion of the west that is partly covered by small



brush and is partly open prairie, we have arranged terms of sale giving a man really four years free of payment of interest in which to develop this raw land into a farm before he commences to pay for it. Those terms are a \$20 cash payment on a quarter-section of land, 160 acres, merely as an indication that his intentions are serious. Then we give him an agreement to sell him that land at the end of four years at a stated price, he in the meantime paying the taxes. That is all he pays; no interest or other payments are due until the end of four years. During that four years they are able to develop these farms and get them into a state of production so they can start to pay for them at the end of that period. Those terms have been very successful indeed in enabling many families of very small capital to start farming for themselves, and they get along very well.

SIR JOSEPH FLAVELLE: Are there still considerable areas of land held for speculative purposes by private owners?

MR. MACALISTER: Oh, yes.

SIR JOSEPH FLAVELLE: That is one of the reasons why, I suppose, the settler keeps pushing further afield in the hope of getting lower priced land?

MR. MACALISTER: Partly, and partly human nature.

SIR JOSEPH FLAVELLE: Partly human nature?

MR. MACALISTER: It is human nature to push further afield.

SIR JOSEPH FLAVELLE: Of course I take it for granted, Mr. Macalister, that you have no doubt about these arable lands being ultimately occupied?

MR. MACALISTER: Oh, none whatever; they will be, yes.

SIR JOSEPH FLAVELLE: We are passing through a period



like the rest of the world, and when we are squared away and going strong again we will get lots of incoming settlers.

MR. MACALISTER: Yes, I hope so. Without wishing in any sense to criticise the policy of the government, my personal opinion is that there has been no reason why we should not have continued receiving agricultural families with capital sufficient to go into occupation of a farm during the past two years. I think we would have been much better off in Canada had we kept on receiving such people, providing they had sufficient capital to go into occupation of a farm and start farming it.

SIR JOSEPH FLAVELLE: I did not know that we had stopped the entry of those with capital. We have stopped them as well as the others?

MR. MACALISTER: Not officially, but unofficially. The Immigration Act still permits the entry of people with capital, but actually they have been pretty well restricted. I am only saying to you what I have said to the Minister of Immigration.

SIR JOSEPH FLAVELLE: I think, Mr. Chairman, that is all I have to ask Mr. Macalister.

COMMISSIONER LOREE: There is something that interests me because I think it is fundamental. We ought always to try to find some means to make sustenance farming attractive. I think that is one of the problems we have to work out in the future. That is why I alluded to the location of buildings as only one of the many steps that might be taken to help farmers, such as diversification of crops, animal life, and all the rest of it. I do not know how much attention the agricultural colleges give to that here, but so far as I





have been able to talk with people in the States I have endeavoured to get them interested in it from that point of view.

MR. MACALISTER: I spent a good many years in the States myself, Mr. Loree, trying to induce your good United States farmers to come over to Canada and settle on our farms. Of course, farming in the corn belt is carried on much as it is in western Canada, that is, the buildings are arranged much the same.

COMMISSIONER LOREE: Yes. I am criticising it as an unnecessary hardship. But many of these things seem to me to be so remediable that one wonders why they persist. When connected with the Rock Island Railway I had occasion to make an examination of the line in Iowa. Iowa is a corn - maize - State. I was told the production of maize was steadily falling off. I started some people to make enquiries, and I found that the seed was poor, much of it did not germinate, and generally things were going backwards. I got the people of the agricultural colleges interested and they undertook various things. We offered them trains, and they went up and down the line and gave lectures. They were the first agricultural trains to be run in the United States. Those people made frames and planted seeds from different ears of corn, and they marked the ears so that farmers could see what ears were worth planting and what ought to be rejected. It is astonishing how much they brought up the yield per acre in that State in the course of eight or ten years. That was just a casual thing, and I wonder why people who have made farming a life business and are interested in those things have not found a solution for much of which we



complain.

MR. MACALISTER: Of course, Dr. Murray would know more about it than I do, but that work is being carried on very actively in the west.

COMMISSIONER MURRAY: A certain amount of it, yes.

SIR JOSEPH FLAVELLE: We turn out a tremendous amount of pamphlets, but the personal touch is what we are interested in. You have been referring to my friend Bowman's scheme?

MR. MACALISTER: Yes.

SIR JOSEPH FLAVELLE: Bowman has a remarkable personality. He is making good.

MR. MACALISTER: Yes, that is the Colonization and Finance Corporation.

SIR JOSEPH FLAVELLE: In manitoba?

MR. MACALISTER: It is pretty well all Manitoba and eastern Saskatchewan.

SIR JOSEPH FLAVELLE: Mr. Bowman is President of the Mutual Life Insurance Company, which company loaned a lot of money in the west. He went out there and said: You owe us money, and you have got to work under direction. He has made those mortgages good.

MR. MACALISTER: Yes.

SIR JOSEPH FLAVELLE: If instead of agitating against this person and that farmers would apply themselves to the field in which they are supreme, the field of cultivation, they would take a pride in the sense of accomplishment of what could be done by attention to their job, and make it a twelve-month job. That is the type of teaching that the colleges have not been doing, that is, they have not succeeded in getting their message over except in spots here and there.



MR. MACALISTER: I think the programme of Mr. Bowman's colonization and finance corporation is the most comprehensive step that has been taken in that direction.

COMMISSIONER MURRAY: For the farmer in difficulties.

MR. MACALISTER: Yes; because they are going after the weed difficulty, the good seed proposition, and all the rest of it.

SIR JOSEPH FLAVELLE: His is a reclamation scheme; whereas it should never have reached the point of reclamation.

COMMISSIONER MURRAY: In the last ten years the farmers' attitude towards the sow thistle has changed. They have control of it now; they did not know how to handle it before. But the real trouble is fifty cent wheat; that takes the life out of the farmers of the west.

THE CHAIRMAN: We are very much obliged to you, Mr. Macalister.

At 4.00 p. m. the Commission adjourned.

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